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The Characteristics of Sino-Taiwanese Joint Ventures in the People's Republic of China

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**The Characteristics of Sino-Taiwanese Joint Ventures in the
People's Republic of China**

by

Chen-Yu, James, Liu

A thesis submitted to the University of Plymouth
in partial fulfilment for the degree of

Doctor of Philosophy

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Chen-Yu, James, Liu

Abstract

The main objective of this thesis is to shed light on the characteristics and performance of Sino-Taiwanese joint ventures (JVs) in the People's Republic of China and in particular to investigate the role played by guanxi (interpersonal relationships) in their formation and in the way they function. The research shows that guanxi enhances the effectiveness of Taiwanese joint venture partners by overcoming unanticipated external environmental factors and enabling them to deal with the complex internal managerial issues associated with the Chinese market. The different political and economic relations between Taiwan and China make the joint venture entry strategy attractive to Taiwanese investors. Taiwanese investors share similar cultural identity and speak the same dialect as much of Mainland China. The literature on international joint venture formation is reviewed and compared business made between western style networking and guanxi relationships in Chinese business communities. The impact of cultural similarity on partner selection has been added in this study of Sino-Taiwanese JVs, which therefore provides a new strategic perspective. A triangulation research method is employed to provide a systematic analysis. In particular, a first set of interviews identified the possible variables in JV development and established important contacts in China, to assist in carrying out a second questionnaire survey. A further round of interviews confirmed the validity of the findings. A strong positive correlation was found between firms' cooperative strategies and the uncertainties of the Chinese business environment. This has demonstrably influenced Taiwanese investors' decision to collaborate with Chinese firms in joint ventures. The interview evidence clearly shows the importance of guanxi at different stages of JV formation and development. The thesis concludes that the effective use of guanxi has enhanced Taiwanese investors' effectiveness within the highly uncertain business environment of China.

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Author's Declaration

At no time during the registration for the degree of Doctor Philosophy has the author been registered for any other University award.

The following activities, pertaining to the programme of related study, have been undertaken:

- I. Attendance and participation at staff seminars and a PhD Symposium during which research work was presented.
- II. Attendance at various conferences on international business.
- III. Presentation of relevant research works at the 32nd Annual Conference UK Chapter, Academy of International Business (AIB) at the University of Bath, 09/04/2005.
- IV. Presentation of relevant research works at the British Academy Management (BAM) conference at University of St. Andrews, 07/08/2004.
- V. Attendance of relevant MBM lectures.
- VI. A schedule of guided reading complied by supervisors.
- VII. Consultation with various external institutions.
- VIII. Guest lecturer at Chinese culture and business briefing for the South West Business Links Committee.
- IX. Thesis contains 79,999 words.

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Signed:



Date:

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Chapter I Introduction: the Sino-Taiwanese Economic & Political Environment

1.1 Introduction

The 'Open Door Policy' in 1979 has provided the opportunity for China to become the world's largest recipient of Foreign Direct Investment (FDI) ahead of the United States (Organisation for Economic Co-operation and Development, 2003). A large number of Sino-foreign joint venture (JV) practices have been attributed to the fact that the cooperation form of entry is popular with foreign investors. Particularly, it is believed that China had more new JV businesses than any other nation in the 1980s (U.S. Department of Commerce 1991). The function of a JV provides an opportunity for organisations to join together in order to carry out certain activities and achieve their strategic objectives (see section 2.2, p. 48). The JV partners hold a certain proportion of ownership stake and contribute their expertise to gain operation control in the JV formation (see section 2.4, p. 60). There are four main JV types practiced in the international business environment under different circumstances such as forward integration JV, backward integration JV, buy back JV and multistage JV (Wild, Wild and Han, 2006); each type is performed based on the JV partner's objectives and goals (see section 2.3 for more detail). However, the case of JVs between Taiwan and China represents a more complex context for international joint venture (IJV) formation as a result of a combination of an unstable political environment and yet rapidly developing economic relations, which have not been widely recognised between Taiwan and China. The use of interpersonal relationships (guanxi) is prevalent in the Chinese business community, and one that has been identified

as having a significant effect on the success of JVs in China (Wilson and Brennan, 2001). Since previous JV studies in China have mainly focused on the foreign partners' cooperative advantages with different cultures among the venture partners (Kogut, 1988), it is important for researchers to pay more attention to the significance of strategic JV and networking capabilities of foreign firms with a similar cultural context. The purpose of this study is to reveal the motivation of Taiwanese firms to form a JV in Chinese markets in relation to both China's business environment and to their specific competitive advantages. By examining the JV formation and operation, it may contribute to explaining how Sino-Taiwanese JVs can survive and succeed over a long period of time (Yan, 1998).

Like many other foreign investors, Taiwanese investors have sought possible opportunities for cost saving and market access in China, lured by the substantial Chinese market, low cost human labour and available material resources. This has enabled Taiwanese firms to continue to grow beyond the overcrowded home market (Luo, 2000). Taiwanese investors have an absolute advantage over other outside investors because of affinities of history, culture and language (Clough, 2001). Cultural similarities and geographical proximity, when coupled with the opportunities to develop the Chinese economy, would suggest that China is an ideal host state for Taiwanese businesses to access. But, most of the studies have largely focused on Sino-foreign JVs in China (Yan & Gray, 1994; Pan, 1995; Luo,

Shenkar & Nyaw, 2001; Wilpert & Scharpf, 2001; Jerome & Meschi, 2001; Yan & Child, 2002).

The central aim of this study will be the issue of Taiwanese investors' motivation for seeking Sino-Taiwanese JVs and particularly on the dynamic functioning of guanxi networks in China within the IJV framework. The establishment of IJVs was once the only entry strategy to access Chinese markets and scarce resources to gain a competitive advantage through sharing the risks and benefits with local Chinese partners (Kogut, 1988)¹. And, Taiwan is one of the most important sources of foreign direct investment (FDI) in China². However, the hostile political situation for Taiwanese investors has resulted in creative ways of accessing the Chinese market and dealing with potential challenges during the entry process. Taiwanese investors possess several competitive advantages which may increase their competitive position and the chance of accessing Chinese markets, such as geographical proximity, speaking a common language, and sharing similar cultural traits (Luo, 2001). Such advantages have motivated Taiwanese firms to set up their business operations in China via JV investment strategies.

¹ Kogut (1988) describes that JV motivation was driven by competitive positioning and the impact of such positioning on profitability (p. 320).

² It is suspected that Taiwan might be the largest investor after Hong Kong in China as far as many unregistered Taiwanese investment projects are concerned (Li et al, 2000).

In spite of the political conflicts between Taiwan and China, their economic relationships have shown that they have heavily relied on each other to sustain market growth, total Taiwanese investments in China have reached U.S.\$ 88 billion, and the cross-strait trading in 2005 was about U.S.\$ 71 billion (Ministry of Commerce of the P.R.C., 2005). In order to break through the hostile political barrier and facilitate a close economic relationship, a cooperative type of strategy could be used by Taiwanese firms to quickly establish their market position in China.

1.2 The Objectives of the Study

Since the collaborative form of business relies on a good, solid cooperative structure, it suggests that firms must realise the importance of the human relationships factor in order to establish effective and efficient JVs. Therefore, there are several important objectives about the Sino-Taiwanese JV formation which will be discussed throughout this study.

1. From the Taiwanese perspective to identify the strategic motives for JV taking into account the external and internal environment between Taiwan and China.
2. To find out whether sharing a similar culture and employing guanxi networks will increase the effectiveness of the JV process in the case of a Chinese socio-economic environment.

3. To understand whether JV and the guanxi networks can be served as a defensive strategy or as an effective solution for Taiwanese firms in China owing to the political conflict between Taiwan and China.
4. To understand whether sharing the guanxi networks help Taiwanese firms to work with Chinese institutions who have a high level of inconsistency, arbitrariness, and corruption (Child and Mollering, 2003).
5. To gain information on Taiwanese firms' JV performance in terms of tangible and intangible financial assets.

1.3 The Relationship between Taiwan and China

1.3.1 Historical Aspects

Taiwan has a very peculiar relationship with Mainland China in terms of political, economic and cultural development. In fact, Taiwan is still treated as being on the ‘periphery’ of mainland China, but in Taiwan, the independence movement has pursued a course towards democratic politics (So, 2001). Geographically part of the Republic of China (R.O.C.), Taiwan consists of several other islands including Penghu, Kinmen, and Matsu, which have very limited natural resources compared to Mainland China. After the Second War World, the U.S. government realized that Taiwan’s geographical location had important leverage potential against China and Japan (Figure 1.2).

Figure 1.1: Geographical location of Taiwan and China



Source: Central Intelligence Agency 1998

The relationship between Taiwan and China has always been controversial. In 1544, the Portuguese discovered Taiwan and gave it the name 'Ilha Formosa' - beautiful Island. However, following the founding of Taiwan, the Dutch invaded in 1624, and two years later the Spanish had taken over a part of island (Thompson, 1998). Although Taiwan's earliest settlers might have come from the Mainland, its history, culture and value systems are not identical to the Chinese. The most important change in the history of Taiwan lies in fifty years of Japanese colonization during 1895-1945. During the colonization, the Japanese exploited Taiwan's agricultural products and raw materials. The Japanese helped Taiwan construct a modern infrastructure and society through railways, agricultural research and development, investment in public health provision, banking, education and literacy programme, business cooperatives, and business. Many of the large-scale state-owned factories set up by Japanese government are still operating today (Wong and Tsao, 1998). Meanwhile, Japanese cultural dominance was emphasized. For example, the Taiwanese were forced to deny their heritage by adopting or receiving Japanese names, clothes, education, language and religion. Consequently, Japan's effect on the island was profound and has yielded some degree of influence on Taiwan's economic development. However, it also meant that the Mainland was suspicious of the Taiwanese.

Taiwan was reunited with the Mainland at the end of World War II in 1945. However, the Chinese civil war broke out, and the legitimate government of the Republic of China (R.O.C.) the KuoMing Tang (KMT) party and its leader Chiang Kai-shek were defeated. They retreated from Mainland China with 2 million troops and refugees and the communist revolutionary Mao Ze-dong took over, in 1949. The R.O.C. government imposed martial law on Taiwan to create stability³ until it recaptured the Mainland (So, 2001). In 1958, the U.S. and Republic of China governments issued a joint communiqué reaffirming solidarity between the two countries. Since then, Taiwan and China have ceased any political interactions and contact, though there have been several hostile military exercises and battles. After separation from China, Taiwan undertook radical economic reforms and gradually opened up to the outside world (see Table 1.1). The reasons for martial law were no longer seen as valid, and this was ended in 1987. The economic and trade exchanges have resulted in a prolonged boom over the past few decades.

Table 1.1: Similarities and Differences between Taiwan and China

	Taiwan	China
Geographical		
National Name	Republic of China	People's Republic of China
Population	23,036,087	1,321,851,888
Ethnicity/ Race	Taiwanese 84%, Mainland Chinese 14%, Aborigine 2%	Han Chinese 91.9%, Zhuang, Uygur, Hui, Yi, Tibetan, Miao, Manchu, Mongol, Buyi, Korean and others

³ Taiwan was guided by 'Martial Law' for forty years, and opposition political parties were banned, publishing and the media were restricted, and most relations with China were forbidden.

Language	Chinese, Taiwanese, Hakka	8.1% Chinese, Cantonese, Shanghainese, Fuzhou, Minnan, Xiang, Gan, Hakka
Literacy Rate	96%	86%
Political		
Government	Multiparty democracy	One party autocracy
Economic		
Monetary Unit	Yuan/Renminbi	Yuan/New Taiwan Dollar
GDP	U.S.\$ 346 billion	U.S.\$ 10 trillion
Export	U.S.\$ 189.4 billion	U.S.\$ 974 billion
Import	U.S.\$ 181.6 billion	U.S.\$ 777.9 billion
Real Growth Rate	3.80%	10.50%
Unemployment	4.20%	4.20%
Labour Force	10.6 million	798 million
Natural Resources	Small deposits of coal, natural gas, marble, asbestos	Coal, iron, petroleum, natural gas, mercury, tin, tungsten, antimony.
Main Industries	Electronics, petroleum refining, armaments, chemicals, textiles, iron and steel, machinery, cement, food processing, vehicles, consumer products, pharmaceuticals.	Mining and ore processing, iron, steel, aluminium and other metals, coal, machinery, armaments, textiles and apparel, petroleum, cement, chemicals, fertilizers, consumer products, transportation equipment, telecommunication equipment, satellites
Major Trading Partners	China, U.S., Hong Kong, Japan, South Korea	U.S., Hong Kong, Japan, South Korea, Germany, Taiwan

Source: The World Factbook from Central Intelligence Agency, 2007

In recent years increasing contact between Taiwan and China resulted in the establishment of the semi-private Straits Exchange Foundation (SEF) in 1991 to help Taiwan's government manage cross-strait contacts. Its Mainland counterpart, the Association for

Relations Across the Taiwan Straits (ARATS), was also established ten months later. These two organizations have met intermittently to discuss technical or business matters, such as the repatriation of hijackers and illegal entrants and solutions for fishing disputes. Although both would like to pursue further expansion of exchanges at various levels, no significant breakthroughs have been achieved, particularly after former President Lee Teng-hui visited the United States which resulted in a missile crisis across the Taiwan Straits in 1996 (So, 2001). In 1999, President Lee then further described the cross-strait situation as 'special state-to-state relations' during an interview with a German radio station. The Beijing government immediately suspended negotiations between the two sides owing to different interpretations of the 'One China' principle⁴. This provoked tensions between two sides of the Straits and impeded economic activities. Furthermore, in 2000 Taiwan's Presidential Election, political power for the first time had shifted from the Nationalist party (KMT) to the Democratic Progressive Party (DPP) and many people suspected that President Chen Shui-bian had intentions to pursue Taiwan's independence which might lead to aggressive military confrontation between Taiwan and China⁵. Many believed that close economic cooperation is an important factor to stabilize the cross-strait relationship (So, 2001).

⁴ The President of Taiwan, Chen Shui-ba, refused to accept the notion of one China. Even this 'One China' was interpreted as the Republic of China (ROC) instead of the People's Republic of China (Sheng, 2002, p. 2).

⁵ In August 2004, a former chairman of the DPP Xu Xinliang expressed his view of the cross-strait relationship, and said 'under the leadership of President Chen Shui-ban, cross-strait relations will remain in deadlock and, eventually, a war will be inevitable' (Mulvenon, 2004).

1.3.2 China – Taiwan Economic Development

Since Taiwan's economy was constrained by its natural resources and needed to be largely dependent on export-oriented activities to sustain its economic growth, it was vulnerable in the global economy⁶. This factor prompted Taiwanese investors and entrepreneurs to seek alternative resources in foreign markets to support their operations. Due largely to geographical and cultural proximity, China could satisfy their economic requirements and investment conditions. Taiwanese entrepreneurs recognised that such a 'relocation' movement could negatively affect Taiwan's economic development, prosperity and the political stability between Taiwan and China. But, driven by profitability and business survival, they wanted to establish business operations in China.

In the early stages, because of the hostile political relationship, the economic exchange between Taiwan and China that began in 1979 was limited to a small amount of trade. Although China announced a free tariff trade incentive in the following year to encourage further Taiwanese trading with the Mainland, as a result of Taiwan's political opposition this policy was practised for only a year. Knowing Taiwan's investments would facilitate China's economic reform, China's government enacted a series of policies and incentives to encourage Taiwanese investors to invest in China by showing them that it was safe to do business in China, with better benefits than other foreign investors. For instance, the

⁶ Taiwan lacks available natural resources, thus it has to rely on trading to sustain its economic growth. For instance, Taiwan was one of the world's largest suppliers for textile production, but now is the world's largest supplier of computer monitors and is a leading PC manufacturer (Business Source Premier, 2002).

Chinese government tailored several special investment laws for Taiwan investors, such as Taiwan's Investment Law in 1988⁷, Law of Protection of Investments by Compatriots from Taiwan⁸ in 1994, and Rules for the Implementation of the Law of the People's Republic of China on Protection of Investments by Taiwan Compatriots⁹, which attracted even more Taiwanese firms to relocate to the Mainland and cope with current trading relationships. In order to create favourable conditions and a conducive environment for foreign firms, the Chinese government designated several areas Special Economic Zones (SEZs) for attracting Taiwanese investments with their valuable resources to facilitate China's economic reform. The first four SEZs - Shenzhen (near Hong Kong), Zhuhai (near Macao), Xiamen (near Taiwan) and Shantou (a major home for overseas Chinese from Singapore and Malaysia) were chosen for the special military, economic and political significance for Taiwan and rest of the world. Each of the zones was located on the Southeastern coast area of China, near to the established trading and financial centres of Hong Kong, Macao and Taiwan (Yan and Luo, 2001). Because of this geographical proximity, Taiwanese investors could take advantage of China's low-cost labour, tax exemptions, and duty free importation of raw material and technology from these special areas to sustain profitability.

⁷ The P.R.C's Minister of Foreign Trade and Economy Commission (MOFTEC) announced the Taiwan Compatriot Investment Law in 1988 to encourage Taiwan investors to set up businesses in China to maintain national economy development.

⁸ At the Sixth Meeting of the Standing Committee of the Eighth National People's Congress on March 5, 1994, President Chinag Tse-ming announced the Law of the People's Republic of China on Protection of Investment by Compatriots from Taiwan.

⁹ On December 5th, 1999, Premier of the State Council, Zhu Rong-ji also announced 'Rules for the Implementation of the Law of the People's Republic of China on Protection of Investments by Taiwan Compatriots' to protect Taiwan investors' businesses and promote Chinese economic development on both sides of the Straits.

Taiwan's economic success was largely dependent upon the manufacturing industry to produce competitive products for exporting purposes. However, those manufacturing companies needed to move from Taiwan to keep the production costs at the minimum level and sustain the firms' growth.

Figure 1.2: China: Special Economic Zones



Adapted from Wu (1986), p.128.

Direct trade and investment is banned by the Taiwanese government. However, after Taiwan's government abolished martial law in 1987, cross-strait trade and investment have become more frequent, which has resulted in increasing economic interdependence between the two sides. Most Taiwanese investments in China were made through Hong

Kong, the British Virgin Islands, and other third places (MOEA, 2005). Meanwhile, the Taiwanese foreign direct investment flows into China have been ranked as one of the top ten sources of foreign investment in China (Ministry of Commerce of the PRC, 2005).

Clearly, Taiwan has benefited from the rapid growth of the Chinese economy. China's government has seen the economic achievements of both Hong Kong and Taiwan as they successfully transformed themselves from low-cost manufacturing industry to the high-tech centre of the world. More importantly, they have relied on the close economic relations with North America and Western Europe to develop their competitive strengths (Wang, 1998). Indeed, the close relations of economic interdependence of Taiwan and China have begun to have a substantial impact on both Taiwanese and Chinese political policies and attitudes towards each other.

1.3.2.1 Taiwan and China Trade Relations

Although there was no official trading channel established between the two sides because of political conflicts, cross-strait trade increased after 1979 when China opened to world trade. This highlighted the potential for economic development between China and Taiwan. While Taiwan depended heavily on the trading activities to sustain its economic growth owing to a lack of its own natural resources, China also acknowledged that Taiwanese business expertise and capital investments have been crucial to maintain economic reform

and development. By 1993 China was the third largest trading partner to Taiwan, after the United States and Japan.

The cross-strait trade pattern can be divided into three important periods of time in accordance with political and economic developments between Taiwan and China. The trade relationship was very unstable between Taiwan and China in the first period (1979-1983).¹⁰ Although most trade items were forbidden by the Taiwanese government, such as telecommunication, post service and power supply business (Kao and Wu, 1998), the economic incentives for export-orientation attracted a considerable number of Taiwanese firms trading with China largely as a result of rising pressure in the domestic market. Meanwhile, most Taiwanese firms were purely export-oriented, which allowed them to take advantage of earning foreign currency without suffering a foreign exchange deficit¹¹.

The second cross-strait trading period was between 1984-1994. Taiwan's government allowed indirect trade and investment to the mainland, which led Taiwan to become one of China's pivotal trading partners. During this time, most foreign companies established their representative offices in China to engage actively in trade. They focused mainly on a

¹⁰ Kao and Wu (1998) have identified three different periods of time of cross-strait trade relations. The first period of time is during 1979-1983; followed by the second period of time in 1984-1986 and the third period of time in 1987-1992.

¹¹ China's government policies focused on the expansion of export for obtaining further foreign investments, especially mineral products, non-ferrous and rare metals, machines and electronic appliances, textile, light industrial products, art and handicraft products and local specialities (Roehrig, 1994, p. 21).

low cost strategy, their priority being China's abundant cheap labour and resources. Consequently, not only did the Chinese government emphasize the advantage of export promotion schemes, but at the same time gradually opened up their domestic market in service and state-owned industries, in order to further improve China's economic development (see Table 1.1).

Since Taiwan depended heavily on exporting activities to sustain its economic growth, the third period of cross-straits trade relations saw a sharp increase in activity in 1995-2005. This could be explained by the influence of the political climate between Taiwan and China and the economic pressure from the global market. From the political point of view, for the first time political power shifted in Taiwan from the Nationalist party (KMT) to the Democratic Progressive Party (DPP) in 2001. This change was a worry to China's political authorities, because they thought it might lead Taiwan to take further steps towards independence. The slowdown of the global market resulted in Taiwan's economic recession during this period and accelerated the cross-strait trade of Taiwanese firms across a wide range of goods. In 2002, China had become the largest trading partner of Taiwan for the first time (Tung, 2004)¹². According to trading data from Chinese government statistics,¹³ the volume of China's total exports to Taiwan reached U.S.\$ 46 million in

¹² In 1981, Taiwan ran a trade surplus of U.S.\$ 310 million, U.S.\$ 2.7 billion in 1989 and U.S.\$21.6 billion in 2002, respectively (Tung, 2004).

¹³ Many Taiwanese investors have registered their business in a third place, such Hong Kong, Macau or Japan to avoid the Taiwanese government's punishment and to escape regulations such as barriers to trade or

1978 (Sheng, 2002), and U.S.\$ 64 billion in 2004. There is, however, conflicting evidence of direct trading between the two sides as a result of the continuing political animosity (see Table 1). The total export value from Taiwan to China reached U.S.\$ 32.7 billion and it has become the largest trading partner of Taiwan (Straits Exchange Foundation Taiwan Business Information, 2005).

Table 1.2: Cross-Strait Trade between Taiwan and China

Period	Taiwan Government Statistics (1)			Mainland China Government Statistics (2)		
	(Unit: U.S.\$ Million)			(Unit: U.S.\$ Million)		
	Exports	Imports	Total	Exports	Imports	Total
1989	—	—	—	—	—	—
1990	—	—	—	2,255.0	319.7	2,574.6
1991	—	597.5	597.5	3,639.0	594.8	4,233.9
1992	1.1	747.1	748.1	5,881.0	698.0	6,579.0
1993	16.2	1,015.5	1,031.7	12,933.1	1,461.8	14,394.9
1994	131.6	1,858.7	1,990.3	14,084.8	2,242.2	16,327.0
1995	376.6	3,091.4	3,468.0	14,783.9	3,098.1	17,882.0
1996	623.4	3,059.8	3,682.7	16,182.2	2,802.7	18,984.9
1997	626.5	3,915.4	4,543.2	16,441.7	3,396.5	19,838.2
1998	834.7	4,110.5	4,945.2	16,629.6	3,869.6	20,499.2
1999	2,536.9	4,522.2	7,061.7	19,537.5	3,951.7	23,489.2
2000	4,217.5	6,223.3	10,440.8	25,497.1	4,994.9	30,492.1
2001	4,745.4	5,902.2	10,647.8	27,339.4	5,000.2	32,350.0

to gain eligibility to incentives available only to foreign investors (e.g., tax concessions) (Chantasawat et al, 2004).

2002	9,945.0	7,947.7	17,892.8	38,063.1	6,585.9	44,649.0
2003	21,417.3	10,960.5	32,377.8	49,362.3	9,004.7	58,367.0
2004	34,020.1	16,678.7	50,698.7	64,778.6	13,545.2	78,323.8
Total	79,492.4	70,630.5	150,126.3	327,408.4	61,566.1	388,984.8

Note: (1). Export indicates amount of exportation from Taiwan to China, and import indicates the amount of importation from China to Taiwan.

(2). Export indicates amount of exportation from China to Taiwan, and import indicates the amount of importation from Taiwan to China.

(3). Prior to 1991, there was no official record of cross-strait trading statistics available due to lack of trading and investment guidelines.

Source: Straits Exchange Foundation Taiwan Business Information, Taiwan, "Economic Inclination of over-dependence on China's Market", at <http://www.seftb.org>

1.3.2.2 Taiwan and China Investment Relations

A sequence of economic reforms has already made China the world's largest foreign direct investment (FDI) recipient (Organisation for Economic Co-operation and Development, 2003). This has put pressure on Taiwan's authorities to gradually relax the limits placed upon cross-strait economic interaction. In the late 1980s, Taiwan's foreign direct investment in China was characterized by small and medium-scale capitalization and labour-intensive manufacture of products such as shoes, toys, plastic, textiles and electronic equipment, but the investing organisations' operations continued to be based in Taiwan (Chen, 2001). By the late 1990s, driven by market opportunities (Clough, 1999), Taiwan became one of the largest foreign direct investment partners in China concentrating increasingly on the high tech and manufacture industries(see Table 1.2) (SSB, 1998).

It should be noted that many studies show that most of the FDI in China was contributed by overseas Chinese (Luo, 2000), more specifically, by those from Hong Kong and Taiwan, who started investing in China much earlier than Europeans and Americans. The changes in investment patterns of Taiwanese companies towards Mainland China can be seen in four different phases.

Table 1.3: Top 10 Foreign Direct Investment Countries in China (Unit: U.S.\$ Million)

1997		2002		2004		2005	
Hong Kong	21,954	Hong Kong	20,487	Hong Kong	18,989	Hong Kong	17,949
Japan	4,390	United States	3,988	Virgin Islands	6,730	Virgin Islands	9022
				Republic of			
United States	3,461	Japan	3,633	Korea	6,248	Japan	6530
						Republic of	
Taiwan	3,342	Taiwan	3,311	Japan	5,452	Korea	5168
Singapore	2,607	Virgin Islands	2,438	United States	3,941	United States	3061
R.O.K	2,228	Singapore	2,147	Taiwan	3,117	Singapore	2204
United		Republic of		Cayman			
Kingdom	1,860	Korea	1,519	Islands	2,043	Taiwan	2152
		United					
Virgin Islands	1,717	Kingdom	1,069	Singapore	2,008	Cayman Islands	1948
Germany	1,009	Germany	799	West Samoa	1,129	Germany	1530
France	476	France	554	Germany	1,058	West Samoa	1352
Top Ten Total	43,044		39,945		50,715		50,916
Nation's Total	45,260		44,796		53,505		60,325

Source: Ministry of Commerce of the People's Republic of China, Department of Foreign Investment Administration

Clearly, the developing trend of cross-strait economic exchange is closely associated with Taiwan's FDI increased in Mainland China. In late 1980, after the Taiwan government relaxed the restrictions in Taiwanese investments in China, a huge number of investments flowed into China. For instance, recorded investments for 1987 were U.S.\$ 103 million, U.S.\$ 219 million in 1989, U.S.\$ 674 million in 2002, and U.S.\$ 930 million in 2004. Prior to the late 1990s, most investments were concentrated in the traditional manufacture industries, since the Chinese government highlighted the competitive advantages affected by its abundant cheap labour and land. But in recent years, the focus on large scale investing projects has substantially increased, particularly in high-tech and service industries, which enabled China to establish its important global economic position. Even though the Taiwanese government protects some industries, more and more Taiwanese firms export their products from China to Taiwan in order to achieve its product competitive advantage.

By early 1990, the volume of Taiwan's investments in China amounted to U.S.\$ 2 billion, and in 1997 it surged to U.S.\$ 24 billion, which was ten times as much as the volume of trade between China and Taiwan (Chen, 2001). This suggested that Taiwan's investors rushed to the Mainland to maintain competitive positions and advantages. The great determination of Taiwanese investors was shown in 2003, when the outbreak of Severe Acute Respiratory Syndrome (SARS) temporarily dampened domestic economic

development. However, Taiwanese investments in China continued to expand, and the cross-strait trading sector appears to have made a quick rebound. A cumulative total of outward Taiwanese FDI in China reached about U.S.\$ 50 billion, which clearly indicated that China had become the favourite foreign outward investments destination for Taiwanese enterprises (Ministry of Foreign Affairs of the P.R.C., 2003).

According to cross-strait investment data from the Ministry of Economic Affairs in Taiwan (see Table 1.3), the total value of foreign direct investment in China is growing rapidly from U.S.\$ 17.4 million in 1991 to U.S.\$ 694 million in 2004. From 1979 to 2004 there were over 66,000 Taiwanese investment projects and the cumulated amount of U.S.\$ 39.6 billion accounts for 7 per cent of the total FDI¹⁴ (Morrison, 2006). An estimate from the Chunghua Economic Research Institute in Taiwan shows that each year U.S.\$ 2 to 3 billion investments will flow into China from Taiwan. The sizes, industries and locations of investment have changed significantly over the decade (Chen and Gu, 2003). Undoubtedly, Taiwanese investments in China will continue to expand, and the cross-strait trading sector will become closer for further economic integration.

¹⁴ According to the Ministry of Commerce Statistic (2006), it pointed out that Taiwan was one of the top six investors based on the cumulative FDI from 1979 to 2004.

Table 1.4: Taiwan Investments in China from 1991-2005

Year	Official Taiwan Investments Data from Taiwan		Official Taiwan Investments Data from Mainland China	
	Investment Cases	Investment Amounts (U.S. \$10 million)	Investment Cases	Investment Amounts (U.S. \$10 Million)
1991	237	1.74	3884	35.37
1992	264	2.47	6430	55.43
1993	1262 (new applications)	11.4	10948	99.65
	8067(addendum)	20.28		
1994	934	9.62	6247	53.95
1995	490	10.93	4778	57.77
1996	383	12.29	3184	51.41
1997	728 (new applications)	16.15	3014	28.14
	7997	27.2		
1998	641(new applications)	15.19	2970	29.82
	643 (addendum)	5.15		
1999	488	12.53	2499	33.74
2000	840	26.07	3108	40.42
2001	1186	27.84	4214	69.14

2002	1490 (new applications)	38.59	4853	67.41
	3950 (addendum)	28.64		
2003	1,837 (new applications)	45.95	4,495	85.58
	8,268 (addendum)	31.04		
2004	2,004	69.4	4,002	93.06
2005	1,297	60.07	3,907	-
Total	34,452	472.56	68,533	-

Sources: Taiwan Ministry of Economic Affairs (MOEA) and Ministry of Commerce of the People's Republic of China Department of Taiwan, Hong Kong, and Macao Affairs¹⁵ In 1993, 1997, 1998, 2002 and 2003 the Taiwanese government allowed those Taiwanese businesses invested in China illegally to have a chance to register with MOEA.

Direct trade and investment to China are still banned which have become an essential factor for Taiwanese firms to invest in Mainland China by adopting different investing strategies (Chevalerias, 1998). First, firms may seek out a third country to invest in China and, therefore, capital investments need to transit those countries to complete their Chinese investment activity. Second, the investment and projects need to be approved by the Investment Commission of Taiwanese Ministry of Economic Affairs (MOEAIC) according to China's local reinvestment plan. Third, there is an investment limit for Taiwanese

¹⁵ Investments made in Mainland China by residents of Taiwan are recorded by the Investment Commission of the ROC Ministry of Economic Affairs (MOE). However, Taiwan's official tally of such investments is believed to fall far short of the actual figure involved. This is because many small and medium – size enterprises in Taiwan, aware of their government's to grow concern about Taiwan's increasing economic dependence on the mainland, have failed fully report their investments.

investors and some investment activities and items are banned and those who break the rules will be fined or punished by the government.

1.4 Taiwan Economic Hollowing-Out Phenomenon

Taiwan was well known for its sustained economic success during the 1960s and 1970s, when low wage advantage and an import restriction policy stimulated investments and export activities. In 1987, Taiwan lifted martial law¹⁶ and gradually started relaxing its regulations on cross-strait trading and investment. Taiwan began to take Chinese markets into account as a manufacturing base where abundant cheap labour and resources were available (Wu, 1997). With the continuous deterioration of Taiwan's economic environment, the economic pressure from China became an inevitable contribution to Taiwan's development.

This phenomenon has created an economic 'hollowing-out' problem, because many Taiwan businesses have suffered a deteriorating domestic investment environment¹⁷. The deterioration of Taiwan's economic environment began with the rise in wages and the demand for strict environmental laws (Tung, 2004), which forced a great number of manufacturing factories - including high-tech businesses - to move overseas and caused a

¹⁶ In the eyes of China, Taiwan is a province; the Republic of China just happens to be stationed here for the time being until it can return to the Mainland. Thus, there are, in essence, two governments of Taiwan; but the provincial government's powers were sharply curtailed under martial law. It is not clear what its powers will be in the future. This is still on the agenda.

¹⁷ Over half of the listed companies have established businesses in China (American Chamber of Commerce in Taipei, 2005).

contraction of the manufacturing sector in Taiwan's economy. According to statistical data from the Taiwan Affairs Office of the State Council (2006)¹⁸, China-based Taiwanese businesses have invested over U.S.\$ 88 billion on the Mainland over the last decade in search of lower costs and resources. According to the report of the American Chamber of Commerce in Taipei (2005), 70 per cent of Taiwan's stock-listed companies and 60 per cent of the over-the-counter market had already invested in China (Taiwanese Business TOPIC, 2005).

Such economic hollowing-out phenomenon occurs because of several reasons. First, even Taiwan's government is worried that its economy might become too dependent on China and affect its economic development. For instance, Chung's (1997) analysis of trading input and output relationships observed that the 'loss' of Taiwan's labour-intensive competitive advantage, coincidentally, could be found in the 'gain' from China's increasing export trading activities in inexpensive labour-intensive industries. Second, in the late 1980s the Taiwanese authorities have imposed several investment restrictions, for instance; the maximum amount that small and medium-size Taiwanese firms can invest cannot exceed U.S.\$ 2 million and 40 per cent of the total investment¹⁹. Also, the ban on

¹⁸ Ministry of Foreign Trade and Economic Cooperation (MOFTEC) in China has kept records of the investment signed by Taiwanese firms, which can be seen as more reliable data than those from the Taiwanese government (Chevalerias, 1998).

¹⁹ Taiwan's government impose '40%' rules to Taiwanese investors for investing in China because the object of the limitation is to prevent listed companies from transferring locally raised funds to China on a massive scale, leading a shortage of available capital for local investment (American Chamber of Commerce in Taipei, 2005).

high-tech investments to China can sustain the competitiveness of Taiwan's economy and prevent Taiwanese firms building the industrial cluster phenomenon in China with up-or down-stream operations. However, such rules impose constraints on Taiwanese investors and encourage them to not register their investments to MOEA. As a result, the data of Taiwanese investment in China is always questionable. So, closer cross-strait economic ties not only create greater opportunities for Taiwanese firms who have been struggling to keep their competitive edge in a global market, but it also reveals Taiwan's economic 'marginalisation' when Taiwan's government persistently stands in opposition to a cross-strait economic exchange relationship.²⁰ While Taiwanese entrepreneurs are attracted by the potential market opportunity and abundant cheap labour, land and raw materials, investment in China is also the consequence of the deterioration of Taiwan's economy, the appreciation of Taiwanese currency, the small size of markets, the high costs of business operations and management. Both are causing the deterioration of Taiwan's economy.

In 2001, both Taiwan and China joined the World Trade Organisation (WTO). Taiwan could enjoy more protection and safeguards in a framework of multilateral negotiations by focusing primarily on economic activity and avoiding the dispute over political sovereignty.

Since Taiwan has no diplomatic relations with most countries in the world it has to face

²⁰ It is suggested by Taiwanese theorists that there is economic stagnation or decline in Taiwan; therefore, investment in and export to China may contribute to the efficiency of Taiwan's economy as well as country development.

increasingly fierce competition and challenges from other nations. Taiwan needs to acquire new knowledge and develop new technology products and skills to maintain its competitiveness globally. In fact, Taiwan's economic structure consists of 90 per cent small and medium enterprises (SMEs) (Chen, 2001, Hou and Zhang, 2002). Those SMEs have a high degree of dependence on exports to the U.S. Traditional manufacturing related exports as well as the existence of speciality businesses, such as computer manufacturers have enabled Taiwan to take advantage of the economic boom and helped to raise its international competitive position.

1.5 Joint Ventures in China

Since Deng Xiaoping declared the 'Open Door' policy and launched economic reform in 1979, the 'Law of Sino-Foreign Joint Ventures'²¹ was announced and JVs were the only way to access the Chinese market in the early age of economic reform²² (Li, 2001). At this particular time, JVs could be considered as tactical arrangements for both foreign firms and Chinese authorities. For instance, since Chinese firms lack experience and efficient management systems, assistance from foreign investors is needed (Roehrig, 1994). A JV therefore could serve as a useful conduit to absorb the advanced technologies and

²¹ Sino-Foreign Equity Joint Venture Law announced on April 13, 1979 at the 1st Session of the 7th National People's Congress Revised Oct 31st, 2000 at the 18th Meeting of the Standing of the National People's Congress by the Decision on the Revision of the 'Law of the Republic of China on Sino-Foreign Equity and Co-operative Enterprise'.

²² The Chinese government allowed foreign firms to invest in China, but only through the cooperation formation. Therefore, they enacted cooperation laws such as 'Law on Chinese-Foreign Equity Joint Venture of 1979' and 'Laws on Chinese Foreign Cooperative Joint Venture of 1988' to give a guidance to foreign firms (Davidson 1987; Luo, 1995).

knowledge from the foreign firms in order to speed up China's economic development. From the perspective of foreign firms, a JV could lead them to obtain the benefits of low-cost production and access a large portion of the market. Additionally, through the JV mode, those multinational firms had a chance to enjoy tax breaks, preferential treatment and other special incentives (Roering, 1994), which resulted in a sharp surge of JVs during the early phase of economic reform (Hu & Chen, 1993).

Because of the high-level complexity and uncertainty in China's environment, JVs remain one of the pervasive ways (Luo 2000, p. 481) and oldest forms (Beamish, 1993) of entry mode for foreign investors wishing to access Chinese markets. Since 1980, JVs have been a major entry mode of FDI for foreign enterprises (Osland & Cavusgil, 1996; Buchel et al, 1998), and in particular, the growth rate of pledged investment in equity JVs in 1984 soared 463 per cent.²³ This cooperative strategy can connect foreign firms with Chinese partners within the shortest time in order to effectively integrate each other's competencies to achieve their common goals and objectives for business success (Buckely & Casson, 1996; Makino & Delios, 1996). More importantly, China's government recognised the need for foreign capital and technologies to facilitate economic improvement, and through cooperative operations they could take advantage of monitoring foreign firms' activities.²⁴

For the foreign investors, a JV provided a chance to participate in prohibited industrial

²³ Pledged and utilized investment in equity joint ventures, MOFERT 1979-1988

²⁴ In order to protect its sovereignty, China's government adopted economic control through definitive laws and policies to prevent multinational enterprises' monopoly power (Roehrig, 1994).

sectors which are mainly controlled and restricted by central government and dominated by a few state-owned enterprises (Luo, 2000); for example, energy development, automobiles, mining, financial service, pharmaceuticals, cigarettes, aerospace, telecommunication, programming packaging and retailing businesses. However, many of these regulations have been improved or abolished in recent years.

The formation of JVs in China has progressed in parallel with the inflow of foreign direct investment. Table 1.4 indicates that before the late 1990s a JV remained the most important source to absorb the large amount of foreign direct investments. However, China's government gradually allowed foreign firms to participate in its domestic market via wholly owned firms. According to foreign direct investment statistics from Ministry Commerce of the P.R.C (2006), from 1979 to 2005 that China received U.S.\$ 1,161 billion in foreign investment and had over 525,378 foreign-funded businesses in China, including 249,937 equity joint ventures (EJVs), 55,855 cooperatively joint ventures (CJVs), and 202,816 wholly foreign owned enterprises (WFOEs). In 1996, for the first time, JVs recorded negative growth, and the number of wholly foreign-owned investment cases exceeded the Chinese-foreign JVs (see Table 1.5). In 2005, the total JV projects are about 258,959 and accounts for U.S.\$ 381 billion (Ministry Commerce of the P.R.C., 2006).

It was reported that poor performance and high failure rates were associated with Sino-foreign JVs (Bleek & Ernst, 1991; Chowdhury, 1992; Kogut, 1988); especially, for foreign partners who have different backgrounds, cultural values and characteristics. Successful JV performance is heavily reliant on effective and efficient management between two partners. However, it was found that political and managerial factors influenced the performance of Sino-foreign JV operations. For instance, foreign investors claimed that China's government exploited its power over the decision-making process and JV activities (Roehrig, 1994). Foreign partners usually possessed advanced technologies and managerial skills, which needed to be shared to increase their efficiency and effectiveness. Information was a key to attain the success of JVs (Walsh, Wang and Xin, 2001), because a lack of open communication channels between Chinese and foreign partners made them unable to work as a team and exhausted their efforts in JV development.

1.6 Sino-Taiwanese Joint Ventures Development

During the first phase of economic reform in China, the laws and regulations were not quite ready for managing foreign investors, and most systems were still governed by the Chinese government, which wished to retain control and stability (Child & Lu 1996, p. 3). Hence, prior to 1996 JVs appeared to be the most popular entry mode for foreign

companies²⁵ (Luo, 2000), and the case of Sino-Taiwanese JVs seemed to follow a similar investments pattern in China, particularly at the initial stage of economic opening up in the P.R.C.²⁶ According to the statistical data from China's official department of Foreign Direct Investment in China, the top four countries investing in China in 2003 were: Hong Kong, U.S., Japan, and Taiwan. In fact, after Hong Kong, Taiwan was predicted to be the second largest foreign direct investment partner in the past decade (SSB, 1998). With an increasing number of Taiwanese investment projects in China, it was suspected that there would be significant numbers of Sino-Taiwanese JVs. In other words, following the pattern of overall JV trends in China, Taiwanese investors adopted a JV strategy to establish a foothold in the Chinese market by utilising the advantages of their partner's distribution channels and resources to reduce the low overhead costs for setting up the competitive position in China. It also helped them gradually to integrate their operational strategy to achieve business success in the host country. Based on the study of IJVs in China, it was found that the overseas Chinese JVs accounted for the largest proportion of JVs in China (Li, Lam and Qian, 2001).

²⁵ In 1996, when China allowed foreign firms to establish wholly foreign owned-enterprises (WFOEs) for greater flexibility, WFOE have become the favoured investment vehicle for FDI, making up almost 50 per cent of all projects in 1999 (Luo, 2000, p. 27).

²⁶ As Hou (2002) mentioned, the unique political tension which made Taiwanese direct investment difficult, had salient characteristics; therefore, it is difficult to know the real numbers of Sino-Taiwanese JVs in China. Generally, the Taiwanese investment might follow the trend of the total foreign investment into China.

The incentives to invest in China have lured many Taiwanese entrepreneurs and firms to set up JVs in China. For example, apart from 'Sino-foreign JVs laws' announced in 1979, China's government has enacted 'Twenty-Two Provisions on the Encouragement of Foreign Investment', which provide further incentives for foreign firms. It especially opened up selected markets of foreign currency for JVs and allowed JVs to extend their contractual period of time over 50 years²⁷. Meanwhile, China's government was encouraging potential overseas Chinese investors to return to the motherland to make substantial investments for the purpose of gaining immediate benefits from those successful returning Chinese Diasporas. Indeed, overseas Chinese contributed almost three quarters of the total FDI in the country - four times as much as by Western multinationals (Luo, 2000). Taiwan has most of the overseas Chinese population, and Taiwanese investors also played an important key role in contributing a large amount of investment in Mainland China.

Following Taiwan's investments pattern towards Mainland China, there were three important periods of time relating to the growth of Sino-Taiwanese JVs. The first considerable Taiwanese investments flew into China around 1985, since that was the time Taiwan's government had just allowed indirect trade to China via Hong Kong and Macao (Tung, 1999). The second important phase of Sino-Taiwanese JVs occurred in 1987,

²⁷ In 1986, Twenty-Two Provisions was introduced by Chinese government. The main theme was the use of preferential tax policies to encourage or induce FDI. The goal is to attract export-oriented ventures, with the exception of offshore oil exploration and the real estate sector.

because Taiwan had successfully lifted martial law²⁸ and given permission to the Taiwanese people for economic activities or personal visits in China. Consequently, Taiwan's trading activities to China were gradually accelerated, and this situation had an impact on many business companies in Taiwan, because they began to realize that cross-strait economic integration was an unavoidable and irreversible trend. During this period of time, the situation of Sino-Taiwan JV cases probably had significantly increased. The substantial investment flow to the P.R.C. took place during 1992-1993, when the Chinese government reaffirmed the policy of 'market economic system' for the future of China's economic development. Since then, according to data from MOFTEC there were 10,948 investment projects that had been ratified in 1993 for Taiwan's enterprises, and total investment had reached almost U.S.\$ 100 billion capital which had reached the highest point and investment amount increased from U.S.\$ 100 million in 1987 to U.S.\$ 9.9 billion in 1993 (China Statistic Year 2003). However, unavoidable political conflicts and the high failure rate of JVs seemed to have slowed down Sino-Taiwan JV projects in China during the period 1996-2000²⁹. Moreover, the advantage of WOS gradually replaced the JV entry form because it gave foreign firms complete control of foreign production and marketing activities (Deng, 2003). The third important phase of Sino-Taiwanese JV growth

²⁸ In 1987, the Taiwan government feared that there was no need for martial law and therefore allowed people from Taiwan to visit relatives in China. Since then, the economy has become increasingly important (see Clough, 1999).

²⁹ The political crisis was caused by President Lee Teng-hui's visit to his alma mater in Cornell University in 1991. In 1999, President Lee publicly characterised Taiwan and China relations as a "special state to state relationship." This was taken by Beijing as a deliberate attempt to strengthen both domestic and international acceptance of Taiwan as a sovereign nation.

occurred in recent years, before China joined the WTO (World Trade Organization) in 2002. Once China became a WTO member, there were many sectors that would have to open up to other foreign nations according to WTO guidelines, especially those in over-protected state-owned businesses. Therefore, instead of giving away business opportunities to Western foreign firms, the Chinese government is more willing to cooperate with overseas Chinese (e.g., Taiwan or Singapore) to meet the challenge of Western capitalist competition.

Table 1.5 indicates that more and more Taiwanese investors are keen on adopting WOE strategy instead of the JV form when entering Chinese markets, because of the large number of conflicts between partners, the complex relationships and uncompleted tasks within the JV formation. It also shows the decreasing number of Sino-Taiwanese JV projects while the total amount of FDI from Taiwan to China is steadily growing. Cross-strait relations have a strong influence on the pace of the cross-strait investment movement.

Since accurate data on Sino-Taiwanese JVs is unavailable from both governments, Taiwanese JV projects are either classified with Hong Kong and Macau together in one category or the authorities did not distinguish those Taiwanese investments' entry mode when firms decided to move into China. Table 1.5 shows that the number of Taiwanese

Table 1.5: Foreign Direct Investments from 1979-2004

	1979-1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
Equity Joint Ventures																	
No. of Contracts	21,198	4,091	8,395	34,354	54,003	27,890	20,455	12,628	9,046	8,107	7,050	8,378	8,893	10,380	12,521	11,570	258,959
Amt. Contracted (US\$ Million)	12,530	2,704	6,080	29,128	55,174	40,194	39,741	31,876	21,405	18,348	15,827	19,648	17,536	18,502	25,500	27,640	381,833
Contractual Joint Ventures																	
No. of Contracts	7,994	1,317	1,778	5,711	10,445	6,634	4,787	2,849	2,371	2,003	1,656	1,757	1,589	1,595	1,547	1,343	55,376
Amt. Contracted (US\$ Million)	13,558	1,254	2,138	13,255	25,500	20,301	17,825	14,297	12,165	9,719	8,234	8,117	83	6,217	7,480	7,790	167,933
Wholly Foreign-Owned Enterprises																	
No. of Contracts	1,525	1,860	2,795	8,692	18,975	13,007	11,761	9,062	9,604	9,673	8,201	12,196	15,643	22,173	26,943	30,708	202,818
Amt. Contracted (US\$ Million)	3,144	2,444	3,670	15,696	30,457	21,949	33,658	26,810	17,695	16,470	15,545	34,309	42,999	57,255	81,610	117,280	520,991

Source: Ministry of Commerce of P.R.C; Almanac of China's Economy in various editions (1979-2004).

Since accurate data on Sino-Taiwanese JVs is unavailable from both governments, Taiwanese JV projects are either classified with Hong Kong and Macau together in one category or the authorities did not distinguish those Taiwanese investments' entry mode when firms decided to move into China. Table 1.6 shows that the number of Taiwanese equity and cooperative JVs in China has been gradually increasing in each year since 2002. A survey from the Chinese National Federation of Industries³⁰ points out this trend can be explained by two significant factors. First, JVs do serve the purpose of helping Taiwanese investors to gain access to Chinese markets in different regions, which allows them to reduce time and risks in setting up its distribution channels. Second, due to recent hostile political situations, JVs might provide Taiwanese investors with business operational stability, which could help them to achieve long-term business success.

Table 1.6: Pattern of Sino-Taiwanese JVs in China

Annual Report from Taiwanese Investments Report from Chinese National Federation Industries (CNFI)			
Year	Equity Joint Venture	Cooperate Joint Venture	Wholly-Owned firms
1995	37.24%	9.08%	53.68%
1997	20.69%	6.90%	72.41%
1998	26.60%	8.60%	64.80%
1999	17.30%	5.80%	77%
2001	12.40%	6.90%	80.70%

³⁰ Survey of Taiwanese Companies' Performance in China in 2003, Chinese National Federation Industries, Resources Available via Internet: [http:// www.cnfi.org.tw](http://www.cnfi.org.tw)

2002	29.50%	5.80%	64.70%
2003	19.50%	7.70%	72.80%
2004	21.80%	6.40%	71.80%
2005	36.90%	10.30%	52.80%

Source: Survey Report from Chinese National Federation Industries in 1995, 1997, 1998, 1999, 2001, 2002, 2003, 2004 and 2005.

1.7 Summary:

Since China's government announced an 'Open Door' policy and enacted 'Sino-Foreign Joint Venture Laws' in 1979, only a few of Taiwan's foreign direct investment projects have been approved by China's authorities because of hostile political and military conflicts. JVs were once the most popular entry strategies to access Chinese resources and market. However, the complexity of its cooperative structure and organisational networks has resulted in poor performance. There are growing studies and literature on the JV issue in China (Davidson 1987; Beamish & Wang 1989; Beamish 1993).

With P.R.C's increasing threat from the impact of economic 'hollowing-out' to Taiwan's economic development, they are unwilling to support any cross-strait economic activities, but instead have enacted several impractical policies to slow down cross-strait investment processes based on considerations of national security. However, such acts have had a negative influence on many Taiwanese entrepreneurs, because they needed to spend more time and effort to take a circuitous route, for instance via Hong Kong or Macau, to achieve their investment goals in China.

It was reported that JVs were the most popular entry route from 1986 to 1996. In particular, the total Sino-foreign JV numbers in 1995 and 1996 accounted respectively for 70.54 per cent and 68.96 per cent. However, in the late 1990s the number of China-foreign JV

projects had dropped significantly; coincidentally, it was also found there was a surge in WFOEs (Luo, 1999). However, as the actual numbers of Sino-Taiwanese JVs are unknown, it seems to follow the total Sino-foreign JVs' pattern to develop Taiwan as one of the major foreign investment sources. According to the Ministry of Commerce of the P.R.C, Taiwanese compatriots invested in China a total of U.S.\$ 88 billion, with 68,533 approved projects at the end of 2005.

The continuation of business trading and investing behaviour from Taiwanese entrepreneurs seems inevitable. Therefore, for the purpose of a complementary strategy, JVs not only provides Taiwanese investors with economic strength from their Chinese partners, but also they are able to obtain important information to overcome the potential risks associated with the Chinese market, where there has been a high level of uncertainty. Secondly, consistent with the regional-based investment plan, the state government has gradually decentralised its organisation and allows local governments (provincial and municipal) to enact various economic incentives to encourage more Taiwanese investors to set up their operation bases locally to suit their needs. Since Taiwanese investors in China are small and medium-size firms, JVs provide further benefits for them to relocate their operations and manufacturing process to Mainland, which enhances their reputation for being culturally adoptable in different regions in China.

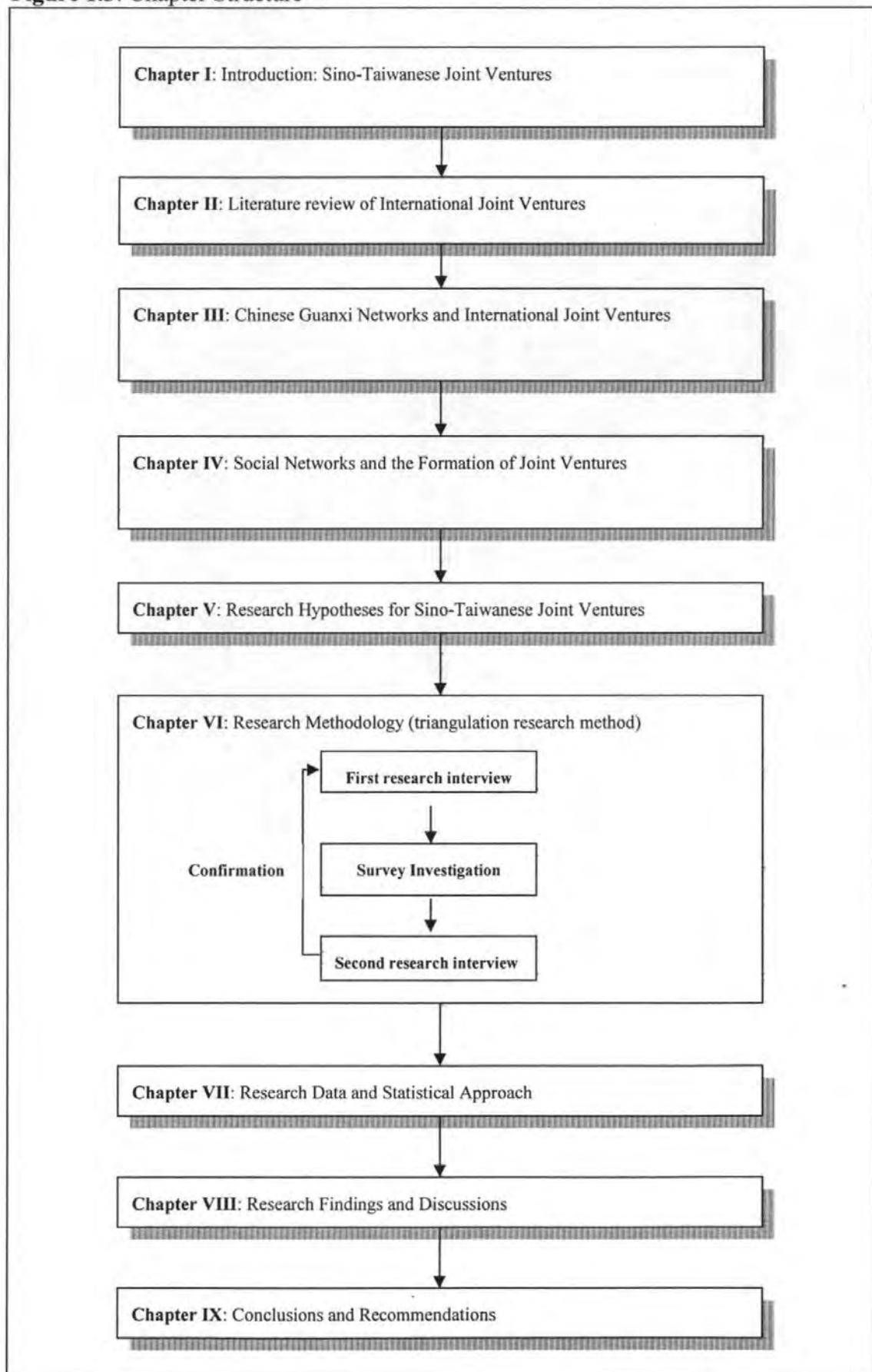
In general, the continuous deterioration of the Taiwanese economic environment and the increasing pressure from global market competition have emerged together as a powerful force to facilitate Taiwanese investors' decision-making about investing in China despite the unstable political cross-strait relationship between them. It was the rational response for Taiwanese investors to form a JV organisation with Chinese counterparts, because Taiwanese firms lacked sufficient and reliable information about local market conditions. In contrast, cooperating with Chinese partners gives greater opportunity to access Chinese markets with fewer problems and interference from the authorities.

No study considers Sino-Taiwanese JV formation, operation and performance in relation to the 'guanxi' functions between JV partners with similar cultural background in a highly uncertain environment³¹. The main purpose of this thesis is to address the strategic motives for IJV formation and operation and the use of guanxi networks to yield benefits through exchanging influences and resources by Taiwanese investors in the P.R.C. In Chapter 1, the economic, political, institutional and cultural relationship between Taiwan and China is addressed in order to provide an overview of the factors that influence the Taiwanese investors. In Chapter 2, the literature review explores key issues; the consideration of transaction costs and resource exchange; priority will be given to developing insights into firms' JV intentions. In addition, the importance of ownership and control of strategic

³¹ Most of studies focus on the trade and investment relationships between Taiwan and China to find out their patterns and the potential of Taiwanese investors' advantage in China (Tan et al, 2002; Hou, 2002).

management will be discussed. In Chapter 3, Chinese guanxi relationships will be introduced in order to explore the importance of human relationships in Chinese society and further argue its important role in the JV formation. Chapter 4 explores the literature on 'western style' social and business networks comparing the strategic functions and behaviour with Chinese guanxi relationships. In Chapter 5, the hypotheses relating to the strategic motives for IJVs and networking in the Sino-Taiwanese context will be tested for the next chapter. In Chapter 6, the research method will be explained; it is based on the triangulation research data collection technique so as to discover valuable information about Sino-Taiwanese JV performance and its use of guanxi in China. In Chapter 7, collected data is analysed through both quantitative and qualitative data analysis techniques using N-Vivo and factor analysis. In Chapter 8, research results and their implications are discussed and summarised. In Chapter 9, the study concludes by considering the contribution to knowledge made by the thesis and discussing further developments of the research theme.

Figure 1.3: Chapter Structure



**Chapter II Review of Research on
International Joint Ventures
Formation & Operation**

2.1 Introduction

There has been a growing theoretical and managerial interest in International Joint Venture (IJV) management, specifically in resource exchange and sharing, and in the co-development of IJVs through partners' contributions of capital, technology and firm-specific assets (Harrigan, 1986; Killing, 1988; Anderson, 1990; Geringer & Hebert, 1991; Parke, 1993; Glaister & Buckley, 1996). Several scholars argue that IJVs are one of the most effective and popular entry strategies for accessing and expanding emerging foreign markets (Killing, 1983; Geringer & Herbert, 1989; Child & Yan, 1999). Others studies have identified that the reason firms choose the IJV entry mode is for cost reductions in operations and risk containment in foreign markets through a cooperative strategy (Griffith et al., 2001; Makino & Yiu, 2002). Although IJVs can offer substantial benefits and rewards (Franko, 1971; Levine & Byrne, 1986; Bleeke & Ernst, 1995; Yan, 1998), some researchers argue that IJVs could be one of riskiest and most problematic of entry modes (Yan, 1998; Yan and Zeng, 1999). As Gimeno (2004) notes, a cooperative structure can provide several benefits to firms, but it also brings some risks, for example, competitive and opportunistic behaviour within the firm (Kogut, 1989), complex management with ownership and control issues (Killing, 1983; Harrigan, 1986), between incompatible partners (Gulati, 1995; Hitt et al., 2000; Jolly, 2005), uncertainty and the risk of overdependence (Yan & Luo, 2001), and complexity of cultural influence (Liu & Vince, 1999).

There have been few studies that have explored the real moments when firms decide to form JVs with similar cultural contexts in terms of JV formation. For example, Yan & Aken (1999) emphasise that partner selection is an important element for overseas Chinese investors who want to achieve successful JV businesses. They found that Singaporean venture partners are more likely to use their informal network relationships (*guanxi*) to seek their compatible Chinese partners in the Chinese business environment. In the study of Sino-Hong Kong IJVs, Wong and Ellis (2002) found that firms with similar cultural identities would rely on their social networks for identifying venture partners prior to forming a JV. However, there is no study exploring the Sino-Taiwanese JV with its *guanxi* networking strategy, since they have shared a similar background and cultural orientation.

To a large extent, the cultural motive was considered a central issue in the context of entry model choices (Yan & Luo, 2001). For instance, Pangarkar & Klein (2004) analyse 1,000 Singaporean firms to discern the impact of control on international JVs performance. They observed that Singaporean firms tend to exert control through their close relationships in order to overcome their partners' differences (p. 101). In a comparative study of cross-culture management, Wang, Wee and Koh (1999) use the Singapore experience to observe successful Sino-foreign EJVs. They found that Singaporean parent firms with majority shares and good relationships have better control over the JVs and also perform well when compared those with equal or minority shares. Deng (1997) reveals that a similar cultural background meant that Japan and Hong Kong investors would enjoy a more cooperative

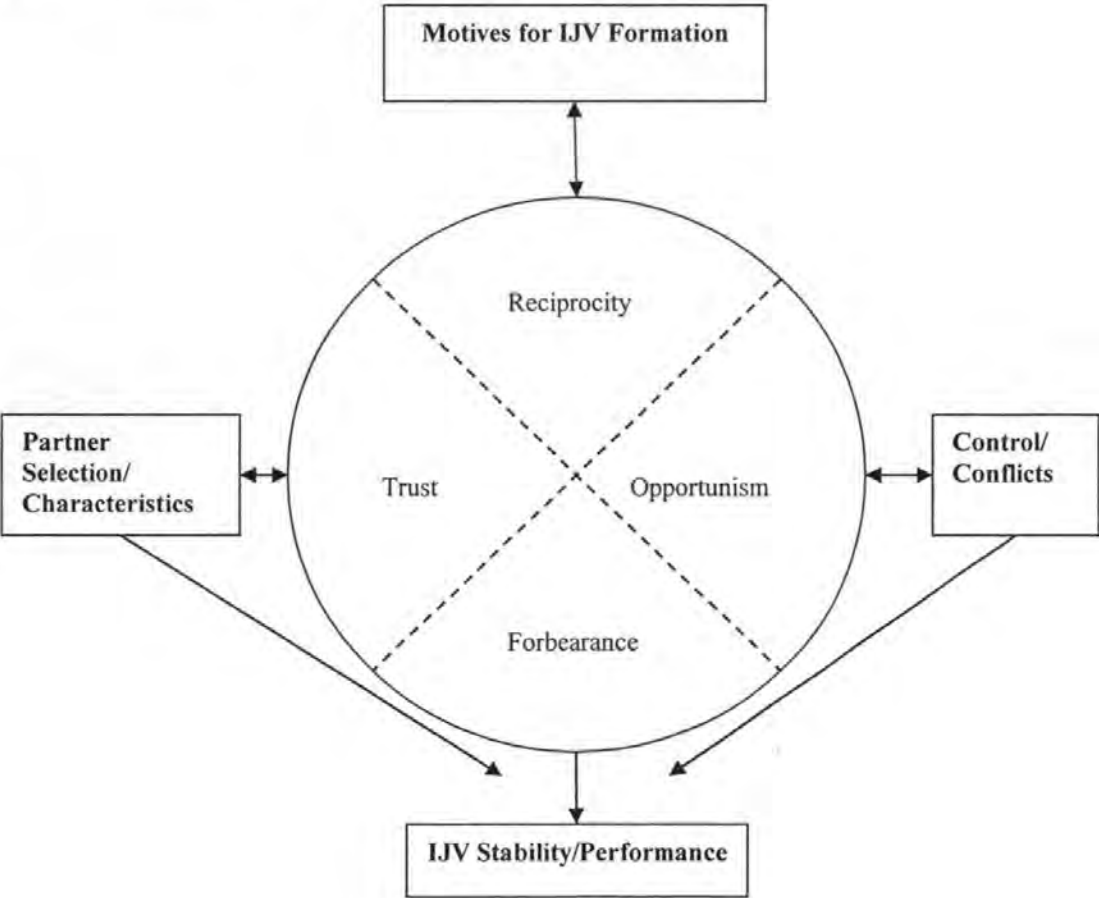
relationship with their Chinese partners than did their American counterparts (p. 7). It is argued by Pothukuchi et al. (2002) that cultural influences have a great impact on JV performance, which may lead to costly failure during the cooperation. Li, Karakowsky and Lam (2002) also address the effect of cultural differences on management styles and JV performance by comparing Sino-Japanese and Sino-Western JVs. During their observations, they found if venture partners have large cultural differences, they would be more likely to struggle with managerial autonomy conflicts about the role of managers in JVs.

A review of the literature will assist in helping researchers to understand the significance of how the partner selection process is based on the firms' distinctive competencies (Geringer, 1988). Following Parke's (1993) JV research streams (see Figure 2.1), the first part of this chapter discusses both the transaction cost and resource dependency theories to understand firms' strategic motives to form JVs. The strategic ownership structures will be examined to understand their relationship to JV performance (Wang, Wee and Koh, 1999) in order to facilitate JV efficiency and effectiveness¹. In addition, the control capability in JV will be reviewed to identify the benefits for risk reduction in this uncertain environment (Yan, 2000; Yan & Luo, 2001 Medina-Munoz & Medina-Munoz, 2004). The successful IJV depends largely on the compatibility of the venture partners not only since the venture partners have a chance to utilise each other's specific advantages, but also so that they can

¹ Yan (2000), examining the IJV relationship between foreign contractual resourcing and the areas of control, reveals only a limited number of significant correlations. Hence, she suggest that the more a parent company contributes key resources on a contractual basis, the greater will be its overall control and influence in the corresponding functional areas of the joint venture (p. 162).

increase their market competitive position through the commitment to resource contribution. Therefore, it is important to review both the partner selection criteria and process and each partner’s motives for working with their local partners in the host country (Beamish, 1987). The attention will shift to internal organisational management to examine the impact of cross-cultural management and the significance of inter-firm cooperative networks on JV performance (Pearce, 2001).

Figure 2.1: Integrating Research in IJVs



Adapted from Parke, 1993.

2.2 Defining Joint Ventures

The IJV can be defined according to the nature of its characteristics and purposes. In this view, IJV can be interpreted as two or more legally and economically distinct organisational entities joined together which collectively invest capital and other resources in order to pursue certain strategic objectives (Preffer & Nowak, 1976; Harrigan, 1988; Geringer, 1991). Young & Bradford (1977) define the JV in more specific terms with respect to its function and structure and state that:

An enterprise, corporation or partnership formed by two or more companies, individuals or organisations at least one of which is an operating entity which wishes to broaden its activities for the purpose of conducting a new profit-motivated business of permanent duration. In general the ownership is shared by the participants with more or less equal distribution and without absolute dominance by one party.

In an analysis of the performance of inter-firm cooperation, Geringer & Herbert (1991) define IJV as:

An equity sharing arrangement in which a foreign corporation and a local firm (either private or government owned) pool their resources, share risks and operational control to operate an independent business unit on a continuous basis for profit and/or to achieve other strategic objectives (Geringer and Herbert, 1991).

In a recent study, Caloghirou et al. (2003) also represented a systematic overview of the JV structure. They defined a JV as the operations of two or more firms partially, but not totally, functionally integrated in order to carry out activities in one or more of the following areas:

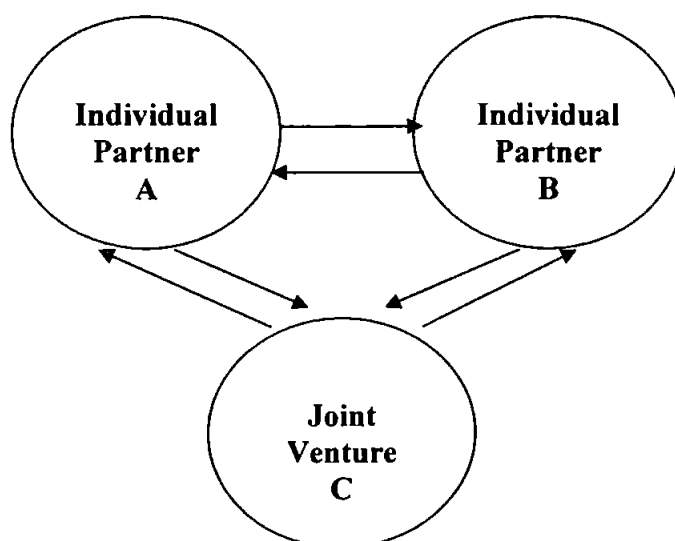
(1) buying or selling operations; (2) natural resource exploration, development and/or

production operation; (3) research and development operations; and (4) engineering and construction operations (OECD, 1986). Following this strategic alliance view, Shiva Ramu (1997) stress the meaning of JV as a combination of at least two firms into a 'distinct firm with shared equity investments, profits and losses accrue on the basis of investment'.

2.3 Strategic Motives for International Joint Ventures

Despite the variation of definitions in the IJV framework, its popularity is explained by the fact that a single firm has difficulty in drawing sufficient resources and skills to pursue its best benefits in the host market owing to unexpected incidents. There is a clear indication that firms in the cooperation arrangement not only can take advantage from each other to compensate for their weaknesses to achieve their individual or joint economic objectives (Pfeffer & Salanci, 1978), but can also extract significant benefits from the cooperative formation by reducing the uncertainty and boosting competitive advantages in the host environment (Luo, 1998, p. 113) (Figure 2.2).

Figure 2.2 The Joint Venture Basic Model



The strategic motives are associated with the JV's strength, which allows firms to react quickly in different environmental settings. JV partners have a chance to exchange their competencies, such as sale and distribution channels, local knowledge and experience and resources by engaging in collaborations with one or more partners in business practices. Like Hamel (1991), Yan & Gray (2001) state: 'IJVs have been characterized as mixed motive games between their participants who simultaneously cooperate and compete' (p. 395). This shows how the importance of a firm's motives for cooperation is related to the firm's strategic objectives and goals (Lin et al., 1997), and hence the JV serves as an effective mechanism for JV parent firms to achieve their goals by exchanging valuable resources and competencies.

In previous cross-border cooperation studies, it was argued that the external environment conditions are usually the powerful forces that push organisations to seek out a collaborative strategy when they engage in the host market. Not only can organisations gain the core skills and knowledge through partners, but they can also enhance their ability to cope with the changing environment (Schneider et al, 1997). Buckley & Glaister (1996) argue that firms' strategic behaviour for cooperation is influenced by several important aspects, such as risk sharing, product rationalisation and economies of scale, transfer of complementary technology or exchange of patents, shaping competition, conformation to host government policy, facilitating international expansion, vertical linkages and other

motives. Those factors indicate that the firms' prime considerations in cooperation were increasing their competitive position and lowering the uncertainty in the host market.

JV therefore becomes an effective way forward for firms when they are facing uncertainty, because it fulfils their quest for complementary functions, particularly in cross-border operations. For instance, Geringer (1991) suggests that JV partners could achieve their strategic objectives and goals by mixing up their capabilities and resources with international partners in cooperative organisations. On the basis of complementary relationships between venture partners, Buckley & Glaister (1997) also suggest that compatible partners would provide a higher chance of achieving the best performance of firms by obtaining the crucial resources from inter-firm partners. In a similar view, Harrigan (1988) stresses that JVs are more likely to succeed if partners possess complementary missions, resource capabilities, managerial capabilities, and other attributes that would create the strategic fit in which the bargaining power of the venture's parent organisations can be evenly matched.

Based on this view, Simonin (1999) found that foreign partners choose the JV entry strategy to access markets and local market knowledge in a short period of time in order to reduce the relevant costs of market operations. Also, Yan & Warner (2002) found that the motives for forming JVs were linked to economic incentives in the host country because

they are a shortcut way for firms to enjoy instant economic benefits such as tax-breaks, competitive labour costs and low production costs.

Nevertheless, the focus on the motives for JVs can be explained by the firms' intention to overcome environmental risks and uncertainties when they enter into an unfamiliar market. Roger & Zhao (2001) suggest that the unique circumstances in a host country that have a high degree of uncertainty can be another good explanation for adopting JV strategies. For instance, their study of JV in China observed strict Chinese government control over market operations and the state-owned enterprises in a dominant position in the market. Foreign firms are more likely to form a JV firm with a Chinese partner to counter such problems (p. 13). In contrast, local firms have a chance to access overseas partners' advanced knowledge, technological assets and international experience while contributing valuable assets to JV partners.

A JV provides an effective way for firms to engage in international markets (Yan, 1998) and helps companies to cope with the fast-changing new economic environments or conditions and enables them to change the existing operations, conditions, and structures. Understanding the various uncertainties that exist in different environments encourages firms to adopt cooperative practices, especially JV partners that have completely different cultural backgrounds (Yan, 1998, 2003). In addition, cooperation practices help firms to

facilitate growth and increase their chances of survival in the competitive environment. More importantly, it reduces the risks in the new business environment.

By reviewing the previous JV studies there are two significant theoretical perspectives associated with JV formation: transaction cost theory and resources dependency theory. These two theories are widely used to explain the determination for JV structure in relation to its inter-firm operations, management implementations, strategic ownership structure and control.

2.3.1 Transaction Cost Theory

Consistent with previous studies in JV formation, the transaction cost can be perceived as a main reason to determine the choice of a collaboration structure by looking for cheaper ways of accessing resources in new markets. In the JV context, Osterloh & Frey (2000) found that transaction cost theory is a motivational power for a firm to 'identify its strategic goals and fulfil norms for its own sake' (p. 540), which significantly influenced each JV's performance and development in an unfamiliar environment by lowering their overall costs. Hoffmann & Schlosser (2001) have also found similar results in their sample of small and medium-sized firms in Austria. They confirmed that these enterprises were gaining an advantage by minimising overall transaction costs while they were choosing cooperative strategies instead of the wholly owned tactic. Similarly, Gulati & Harbir (1998) used substantial datasets to illustrate the importance of managerial control based on the

principal of reducing transaction costs in minimising behaviour uncertainty and the related coordination costs and overcoming the problem of coordinating activities between partners.

Bertrand & Meschi (2005) argue that some JVs have a more satisfactory performance than others based on the concept of cost reduction, because firms adopted a cooperation strategy when resource exchanging was failing in the market (p.18). This means that if firms have a continuous difficulty in acquiring or reproducing similar resources, it would cost less to a cooperation venture with potential partners in order to access crucial resources.

Conceptually, the idea of transaction cost in JVs is crucial to the JV structure, because it provides a logical reason for firms to reduce their costs by 'identifying the nature of an asset transaction, assessing the risks and the cost associate with the transaction and choosing a governance structure of the transaction' (Bertrand & Meschi, 2005, p. 16). Because firms depend on their partners' competencies to increase their competitive advantages, Makino & Neupert (2000) argue that JV formation is preferred to a wholly-owned entry mode, because the firms are not only able to obtain complementary assets through cooperative formation with partners, but also benefit from the reduction of need for purchasing resources from markets which entail high transaction costs. Following this argument, it is clear that the main advantage of JVs will depend on the function of cost reductions that are usually associated with the entire value-added chain in JV activities (Tse, Pan & Au, 1997). Therefore, the cost reduction strategy in JVs may result in less competition for the JV partners (Gulati, 1998) and facilitate the knowledge transfer process

increasing the efficiency of exchanging resources and know-how skills (Hennart, 1982, 1988; Kogut, 1988; Gomes-Casseres, 1988; Kogut & Zander, 1993).

Anderson & Gatignon (1986) and Williamson (1975) found that if firms pay more attention on the transactions process in the foreign market within a complex environment, this cooperative behaviour will increase their opportunities for success, because firms are able to face different challenges by pulling resources together to reduce potential risks. From the transaction perspective, this is especially so if the host country has an unstable political and economical environment, the legal systems are weak, and cultural and social relations are embedded in the national environment. Then, in order to achieve business success, firms should adopt a low control entry strategy such as a JV to shift the risks to their partners.

Furthermore, the relationships between JV partners will have an impact on the transaction costs conditions. Such an approach has been discussed in the research on strategic alliance networks (Gulati, 1998; Garcia-canal & Valdes-Llaneza, 2003). First, in the cooperative structure, partners need to be more careful to manage their collaboration relationships, because they help firms to access their partners' crucial resources that lower costs. Second, a positive cooperation relationship highlights the control capability in a JV formation (Gulati, 1998), which may effectively reduce unexpected costs for alliances (for more detail please see Chapter 4). Therefore, it is sensible thinking for venture partners to

incorporate their relationships into the cooperative strategy. Relationships are a crucial part in the cooperation process, because it can smooth the operation and management, which increases the important implication of transaction costs in cooperation formation (Gomes-Casseres, 1990; Hill, Hwang, & Kim, 1990; Kim & Hwang, 1992; Delios & Beamish, 1999).

Alternatively, the transaction cost concept is strongly associated with partners' opportunistic behaviour and unanticipated environment uncertainty (Kogut, 1983; Delios & Beamish, 1999). In the comparative study of transaction cost and resource-based theory in the JV context, Tsang (1998) identified that opportunism is rooted in the transaction cost concept, because the main idea is to reduce costs during the transaction process. Tsang (1998) further argues that the opportunistic behaviour could be reduced under the JV structure, because the resources can be shared on an internalised basis. Building upon Buckley & Casson's (1988) discussion of transaction costs and JV strategy, Yiu & Makino (2002) argue that firms enter into cooperative structures to gain access to their partners' resources, which might be difficult to obtain elsewhere.

2.3.2 Resources Dependence Theory

Apart from transaction cost theory, the resources dependence issue represents another important reason for a strategic motive for IJV formation (Gulati, 1995). By adopting the cooperative strategy, firms can essentially complement each other regarding the scarce

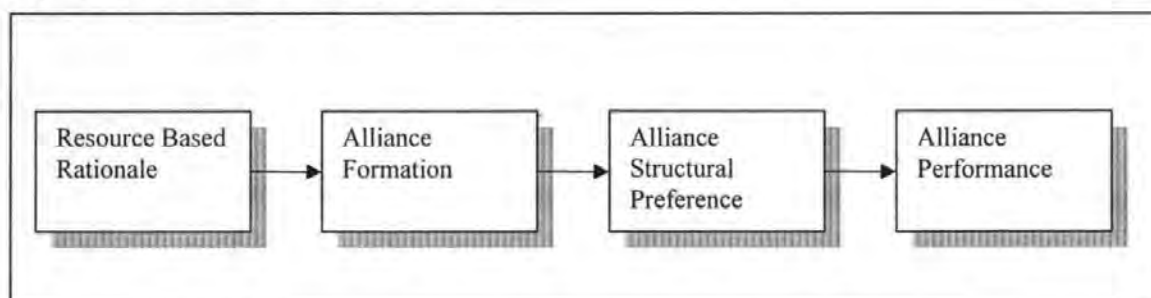
resources they need while enhancing the strength of their cooperative organisations (Schmidt & Kochan, 1977). It seems a critical issue to inter-organisational partnership. Resources' interdependence not only facilitates a cooperation process based on scarcity of resources in cooperative organisations, but through the pooling of resources firms are able to reduce competitive behaviour and antitrust opposition, since resources interdependence and JVs have always had a positive correlative relationship (Pfeffer & Nowak, 1976). When firms decide to join together to achieve their strategic objectives, they have determined to exchange tangible and intangible assets with their partners to access the highest level of performance.

Many researchers have repeatedly stressed the importance of the resource dependency approach in explaining cross-border cooperation. In particular, the cultural differences of the nationality basis will influence partners' behaviours in pooling their resources to improve their performance in different specific areas (Inken & Beamish, 1997; Hennart & Reddy, 1997; Das & Teng, 2000). Oudenhoven & Zee (2002) suggest that venture partners that have similar cultures are more flexible and tolerant during the cooperation, because they better understand each other. Hence, the internal experience may increase the chance of success for the cooperation. For instance, Buckley & Glaster (1997) commented that firms would not have the same set of motives to form an alliance. However, once they start to collaborate, this provides the strategic complementary benefits for participating firms because of the possession of idiosyncratic resources (e.g., technical skills and knowledge,

investment capital, advanced technology, and market experience). This concept has played a dominant position in the JV context, because it offers a useful framework to examine the firm's JV motive and approach in the international market.

Li et al. (2002) stress that firms may possess different critical and scarce resources. But despite having different preference or goals, they may depend on each other for business success and survival² (see Figure 2.3). A firm's competitive strategy is heavily dependent upon the critical resources they have accumulated, because it not only increases their competitive position, but also determines what they can accomplish in a competitive environment (Das & Teng, 2000).

Figure 2.3: Schematic of Exposition



Adapted from Das & Teng, 2000

Gaining control on resources in the cooperative organisations is important for firms. Pfeffer & Salancik (1978), Das & Teng (2000) and Yan (2000) strongly suggest that the venture partners should gain the control over the activities of a whole JV, because firms can directly or indirectly control the cooperating organisations' management and operation.

² Li, Karakowsky and Lam (2002) explain that if firms have possessed similar resources or knowledge, such 'overlap' will affect the cooperation performance, since they have many resources in common and it is difficult to increase their competitive advantages from the cooperative structure.

Meanwhile, venture partners in the JV structure may realise that their own resources are crucial, and probably the alternative resources might not be available in the market; therefore, they could gain control. On the other hand, through the inter-organisational structure, venture partners have a chance to obtain resources through internalisation and thus increase the partners' competitive advantages as regards the resource dependency theory. Ironically, in a highly competitive environment, those firms might be reluctant to lock themselves into the cooperative structure for a long period of time. In such cases, the JV firms' opportunistic behaviour perceives to be a way of seeking alternative resources with cheap costs in order to remain competitive.

Table 2.1: Transaction Cost and Resources-based Concepts of the Firm

	Transaction Cost Rationale	Resource-Based Rationale
Logic behind ownership secession	Minimising the sum of production and transaction costs (Kogut, 1988, pp. 320)	Maximising firm value through gaining access to other firms' valuable resources (Madhok, 1997; Ramanathan et al., 1997)
Mergers/Acquisitions/Internal Development	If high transaction costs (i.e., high asset specificity, uncertainty, and frequency of the transactions, and high costs for controlling opportunistic behaviour) and/or low production costs (i.e., coordinating and learning) (Kogut, 1988).	'If the market is munificent or the firm is pursuing a strategy for which it has extensive resource capabilities, there is much incentive to cooperate' (Eisenhardt & Schoonhoven, 1996, p. 137).
Market Transactions	If low transaction costs and/or high production costs	When "the purchase of the resource's service from the firm that possesses it" can be efficiently conducted through the market (Chi, 1994, p. 272).

Strategic Alliances	<p>'When the transaction costs associated with an exchange are intermediate and not high enough to justify vertical integration ...' (Gulati, 1995, p. 87). 'JVs are formed when transactional hazards suggest that internalisation is efficient ..., but constraints of various kinds prohibit full internalisation ...' (Ramanathan et al., 1997, p. 57). 'The situational characteristics best suited for a joint ventures (rather than a contractual) are high uncertainty over specifying and monitoring performance, in addition to a high degree of asset specificity' (Kogut, 1988, p. 320).</p>	<p>Alliances preferred 'when the critical inputs required to pursue the opportunity are owned by different parties and when these inputs are inseparable from the other assets of the owner firms' (Ramanathan et al., 1997, p. 65). 'Collaborations are useful vehicles for enhancing knowledge in critical areas of functioning where the requisite level of knowledge is lacking and cannot be developed within an acceptable timeframe or cost' (Madhok, 1997, p. 43).</p>
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Adapted from Das & Teng, 2000

2.4 The Importance of Ownership in IJVs

The ownership and control of IJVs continues to be a focal point of JV practices, especially where firms are in an unfamiliar foreign environment or where legal and political issues are not stable, and they may become a great challenge to IJVs in achieving good performances. In the IJV framework, the key to manipulating inter-partner cooperation is closely associated with ownership structure. Ownership structure of IJV provides a solution to a wide range of inter-firm problems, which have been shown in previous studies on IJVs (Luo, 1998). For instance, ownership can be seen as the parent company's specific resources or capabilities used to provide a unique advantage to the venture partner firms. Killing (1983) suggests that firms can take a different proportion of equity shares in

JVs to hedge against unexpected risks from internal problems during the cooperation, as well as external environment uncertainties.

The central point of the issue is that JV partners must be compatible or they will have a difficult time in collaboration, because foreign partners are involved and they usually have different backgrounds, objectives and goals regarding cooperation which are to be achieved through 'formal contractual agreements' to access equity shares. These give parties a right to exercise their control strategically over IJVs in order to prevent a 'deadlock' situation in the highly competitive market (Herzfeld, 1983). Control practices can be directed through a variety of resources such as know-how knowledge, scarce resources, and effective management systems (see Table 2.2). Fryxell, Dooley and Vryza (2002) provide evidence of the close relationship between control and ownership. They studied 603 IJV managers based in the United States and confirmed that formal control was a necessary mechanism in IJVs. This is strongly associated with various ownership structures between both partners during an IJV's development.

Killing (1983), Yan & Gray (1996) and Yan & Luo (2001) agree that ownership structures may be identified in three main types: equity, contractual and non-contractual, which show a significant different ownership structure in IJV development. Each of these ownership structures affects the structure of control over the JV's operations (Luo & Yan, 2001, p. 72), since parent firms have different sets of objectives to obtain their benefits via

particular JV ownership positions. Whether JVs are contractual or non-contractual types, they both involve the sharing of ownerships (Reuer & Tong, 2005). Therefore, the proper alignment of strength and weakness at different ownership levels is important for venture firms who wanted to achieve successful JV management and operation (Yan & Gray, 1994).

2.4.1 Equity Ownership

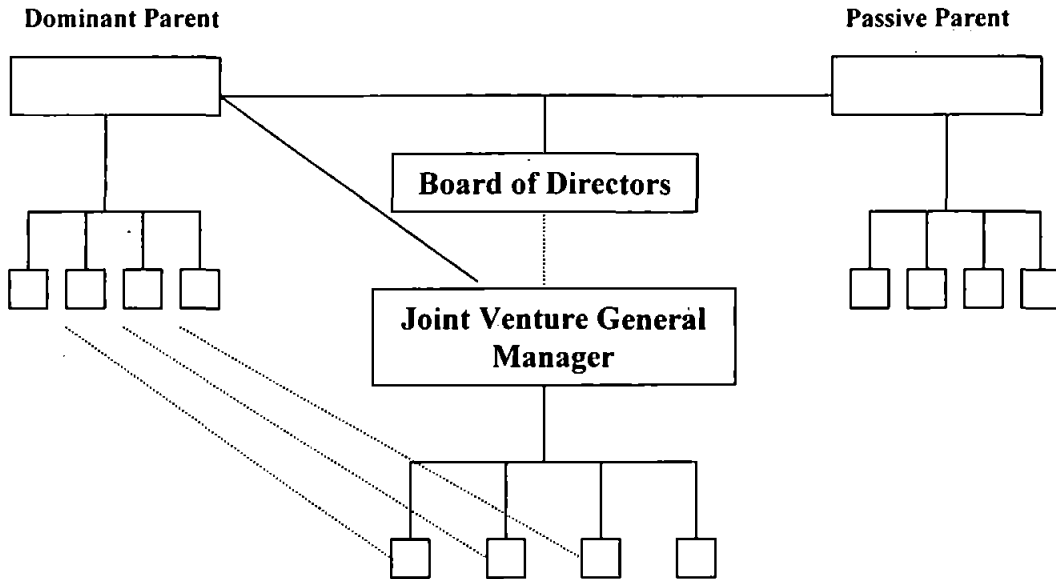
According to previous studies, most cooperative projects are formed as equity share types of JVs (Blodgett, 1991; Gomes-Casseres, 1990; Hennart, 1991; Pan, 1996) where firms have specified the level of entitlement that each firm can exercise over the JV activities. In practice, ownership control holds a powerful key to lead the venture firms in achieving their best interests through the cooperative formation. The most direct and effective way to achieve this is through different ownership structures by acquiring certain equity shares. In practice, equity shares of JVs not only reflect the motives behind foreign firms' investment strategies (ownership preferences), but also the type of resources they may obtain from or contribute to local partners for IJV consolidation (ownership concessions) (Gomes-Casseres, 1990; Yan & Luo, 2001). Killing (1988) suggests that the equity JV is a conventional JV formed through a separate legal entity by two or more partners. However, each partner has different equity positions in the cooperative organisation and are expected to generate their benefit in accordance with their proportional shares for compensations.

Osborn & Baughn (1990) stress that the parent companies of a JV business have the right to control the new company in accordance with its percentage of equity shares. For instance, in Chinese JVs, foreign firms must obtain over 25 per cent of equity shares to represent a corporate level of decision-making regarding different JV strategic ownership positions in Sino-foreign JV structures (Tan & Li, 1996). Because the equity type of JVs includes a control variable, it has become the most popular choice for foreign investors entering host markets. Since firms tend to use JVs for long-term cooperation, Sanyal & Guvenli (2000) believe that, operating in the uncertainty of unfamiliar environments, the foreign parents rely on their equity stake to hold off potential opportunistic behaviours on the part of the local parents, which is often exercised in collusion with local authorities. More precisely, this is particularly relevant in emerging markets where uncertainty surrounds many operational provisions (Luo, 1998), and in the special environment such as China, where most local parents are either officially or unofficially affiliated with a government agency with a regulatory role. Therefore, EJVs can be divided into two positions aimed at strategically controlling the JV process.

2.4.1.1 Dominant Ownership Strategy

Since many companies are driven by the aim of gaining the right to operate and manage JVs, they try to obtain as many equity shares as possible. It is found that a dominant-partnered JV strategy is more likely to be successful by measuring its performance (Killing, 1983). Understandably, holding a majority of equity shares can create the absolute

controlling power over JVs to access its satisfaction with the performance of ventures, because control is associated with costs and risks reduction both directly and indirectly (see Section 2.5, p. 74). Dunning (1977), Hennart (1982), and Beamish & Banks (1987) explain that venture firms use their resources and core competencies to gain a higher level of overall control and that this may lead to a better performance. This practical strategy of majority shares in JVs, which has been identified where foreign firms possess strong skills in managerial capabilities and know-how, can allow more effective competition with their rivals in a host domestic market (Hitt et al., 2000). Hitt et al. (2000) argue that in emerging markets, if partners lack absorptive capacities, they would have a difficult time learning the necessary managerial skills and technological capabilities (p. 453). They suggest that partners should complement each other because they all possess valuable and rare resources in order to achieve competitive advantages that are in the best interests of the strategic alliance. However, such conditions do not actually apply to the Chinese market, because a combination of a weak institutional and bureaucratic environment, and the strong imitation capabilities have resulted in significant technology transfer from the foreign partners through the Chinese partners to other Chinese firms (Hitt et al., 2000).

Figure 2.4: The Dominant Parent Joint Venture

Adapted from Killing, 1983

2.4.1.2 Equal or Minority Ownership Strategy

In contrast to majority shares of ownership, firms whose capital is distributed equally or less than equally can be seen as a sharing JV. The use of this strategy might be attributed to different situations or political considerations that cause a partner hold minority shares in a JV formation. The weak position of equity shares does not mean that partners will remain passive, because sharing control with local partners will require that partners have more responsibility in the JV and contribute their efforts more in order to achieve higher returns on investments. Yan & Gray (1992) found that shared ownership strategy positively associated with four U.S.-Chinese JVs' performance. They worked well when either mutual trust or shared or institutionalised objectives were present. In particular, foreign shared ownership is common in less developed countries, because shared control results in better performance (Beamish, 1984).

According to previous researches, which have provided strong evidence for holding equal or minority shares as an advantage by compensation from partners' resources. For example, Reynolds (1979) and Beamish (1983) claim that 70 per cent of the JV of their research samples were minority share partners in developing countries. Beamish & Wang (1992) found out that 60 per cent of the JVs in China were the minority type and 31 per cent were the equal type, and only 9 per cent were the majority type. Yan & Gray (1994) confirm Beamish's findings in their study of venture parent control and performance; they found that share and split control in international JVs in developing countries performed better than those dominant control firms by testing their model in Sino-U.S. JVs. Many studies paid more attention to the relationship between control and ownership, but others disagreed about whether or not that control may be gained through increasing equity shares by partners in the JV (Franko, 1971; Killing, 1983; Beamish, 1989). Building on from this argument, the contractual and non-contractual ownership will be discussed later to understand the non-equity type of ownership structure in relation to the control factor.

2.4.2 Contractual Ownership

Contractual ownership usually refers to a 'non-capital' type of JV, which is made up of the venture parent's resources based on the formal contracts and those non-capital resources including technological know-how, management systems, management services and training (Yan & Gray, 1994). For instance, the technical assistance, distribution systems, and supply agreements all refer to a wide array of contractual arrangements, thereby it is

necessary to establish for a single activity or project within a limited period of time. To some extent, contractual JVs can be used where the establishment of a separate legal entity is not needed or where it is not possible to create one. Berger (1999) points out in his JV study that the significant advantage with the contractual structure is that each party would be fully responsible for the activities of the JV, except that the venture agreement has reallocated the liabilities to the other partners.

Under this type of structure, it is clear that most JVs are formed via an express written agreement to exercise their control ability, although such arrangement might damage those between JV partners and lower the JV's competitive advantages. In the choice of a JV legal contractual agreement, the unreasonable ownership position would influence the inter-firm cooperation relationships and its performance (Child & Yan, 2003), because such unequal partnerships would affect partners' willingness to contribute further resources. Nevertheless, the contractual ownership of JVs offers a greater advantage than other agreements by specifying firms' rights and responsibilities. This relates to JVs in the issue of control. Such a legal agreement will usually be involved in the aspects of the scope of the venture; the composition of the board and the executive committee, the type of decisions that need to come to the board for approval; and the percentage of votes needed to approve various types of decisions (Killing, 1983).

2.4.3 Non-contractual (Cooperative) Ownership

In contrast to contractual ownership, there is a non-written agreement in the form of a non-contractual JV, but it still has as an important role in the cooperative structure, because it specifies the limited liabilities and obligations of the ventures without the actual contractual agreement. A non-contractual JV is implied only when there is a deeply connected relationship between the partners based on mutual trust. In this regard, it has been argued that a contract might seem to be the essence of a business collaboration relationship, but the potential risks and conflicts between partners are greater than within a contractual JV. Particularly, the long-term partnership of the JV relies only on the trustworthy relationship. This JV partner relationship exists without the restriction of the contractual agreement. Beamish & Banks (1987) have reported that, in non-contractual relationships, it is demonstrated that 'commitment' in the actions and values of key decision makers are highly significant regarding the continuation of the relationship, acceptance of the joint goals and values of the partnership and a willingness to invest resources in the relationship. Although non-contractual venture partners have fully autonomous powers, they do have to react quickly to respond to environmental changes and difference in order to cope with their strategic goals in the JV structure (Buchel et al., 1998). Especially, a high degree of trust relationship is needed for both local and foreign firms owing to the complex set of interactions within IJV structures. Although venture partners seek collaboration in JVs, they are not only likely to have congruent goals and objectives, they are more likely to establish a high level of mutual trust to overcome the

potential risks and costs together while there is no formal contractual agreement for JV operations (Beamish & Banks, 1987).

2.5 The Importance of Control in IJVs

It has been pointed out that gaining 'strategic control' is an important function for cooperation projects to satisfy their JV performance in the host country (Geringer & Hebert, 1988). A successful JV is dependent not only on the contractual or non-contractual agreements it is also through an effective exercising of control that they can achieve their strategic goals and interests in the formation of JVs. Previous research has been conducted from a variety of approaches to examine the importance of the control variable in the JV context. In fact, by discussing previous JV studies, Geringer & Hebert (1989) found that a particular individual or group used control companies through power, authority and a wide range of bureaucratic, cultural and informal mechanisms to influence the process to affect behaviour and the output of other entities to various degrees.

Firms in the IJV framework are normally concerned with the differences in culture, objectives, experience, social background and control. Therefore, there is a need to identify these differences among partners in order to yield higher success rates of JVs especially in the foreign host country. Control mechanisms over JVs can be exercised in different dimensions (Geringer & Hebert, 1989; Killing, 1983; Yan & Gray, 1994). Parent firms' control abilities can be measured in the following three key areas in order to capture the

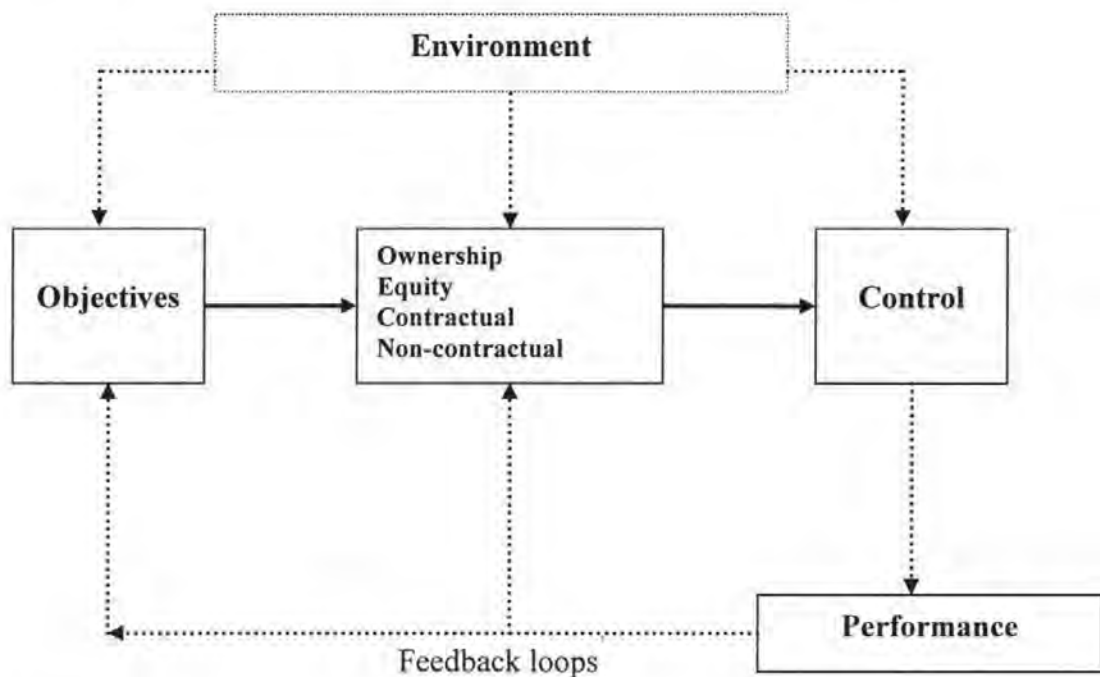
real essence of the JV performance: (1) strategic control at the board of directors level affects each partner's long-term goals and direction, because it is designed to monitor the entire range of a JV's activities (Luo, Shenkar and Nyaw, 2001); (2) operational control at the JV's general management level affects decisions and actions that specifically relate to the partner's planning and day-to-day operating performance; (3) structural control imposed by the parents in forming the venture's organizational structure, processes and operating routines (Gray & Yan, 1994). For instance, if venture firms have an equal or lesser share position, in order to enhance their bargaining power in JVs, they might have to manipulate specific control on strategic resources and expertises such as technology and know-how, management skills, local knowledge, and distribution channels over their JVs.

Control is not a strict and automatic consequence of ownership. Control is a key factor to produce a better JV performance outcome, because it relates to various issues in JVs such as geography, cultural distance and the nature of the JV (Jaussaud, Schaper and Zhang, 2001, p. 212). The firm's external environment and internal capability will influence the firm's control decisions, which must be explored to reveal the significance of the control per se. The determinants include considerations of environmental influence, government and regulations, previous experience, bargaining power, commitments and responsibilities, organisational learning and global integration (Yan & Luo, 2001). It is not sufficient to rely upon contractual JV agreement; instead, they should rely on the 'proper alignment of contractual design with environmental conditions' (Luo & Tan, 2003, p. 186). Based on

this view, firms will acknowledge the significance of contract completeness in order to avoid opportunism and control of inter-partner cooperation. More specifically, unanticipated environmental conditions will encourage organisations' motives for forming a JV to share information, avoid unanticipated risks and costs and increase the cooperative advantage of efficiency and effectiveness in the host market.

2.5.1 Environmental Influence

The unfamiliar environment that causes uncertainty becomes the first consideration for the firm's determination to cooperate with a partner firm in order to cope with changing environmental factors (see Figure 2.5). To formulate an effective approach to gain strategic control seems inevitable and appropriate (Robinson, 1999). Luo & Yan (2001) argue that when firms face a great risk in a host environment, parent firms are more likely to access each possible control power to maintain stability especially in 'the expected environmental uncertainty, complexity and hostility' (p. 77). Beamish (1993) and Shama (1995) demonstrated that IJV is a realistic strategy when it comes to dealing with the complex, dynamic, and hostile environments in transitional economies and outperforming JVs in other economies. Hitt et al. (2000) also raise the issue that environmental conditions in emerging markets are critically important for the cooperation strategy, because this provides strategic functions to cope with each of these different markets. When firms are facing different environmental uncertainties, firms in the JV formation should pay special attention to control issues in order to minimise unforeseen environmental influence.

Figure 2.5: A Framework of Objectives, Ownership, Control and Performance in IJVs

Adapted from Yan, 2000

2.5.2 Government Regulations

Although a JV is a favourite strategy to attract substantial foreign direct investments, governments may impose restrictions and tax barriers on JV ownership structures in order to keep control of a JV's activities (Jaussaud, Schaaper and Zhang, 2001). For example, Dominique (2004) and Reuer & Tong (2005) argue that government intervention or changes in government policy become an invisible force for foreign firms that may constrain their business practices rather than expand them. Chinese JV laws³ require foreign partners to possess at least twenty-five per cent of total equity shares to define the Sino-foreign JV context. Clearly, the government's approach to gaining economic control is by monitoring the pattern that foreign investors develop. Following this view, Beamish

³ According to a Chinese State Council announcement in 1979, joint venture laws specify that foreign firms should follow the rules and bear responsibilities when they are conducting business activities in the Chinese market.

(1985) shows that in developing countries the JV is the most popular investment strategy because governments established a series of laws and regulations to attract more potential foreign investors through JV formations, in particular, when firms possess advanced technology and know-how skills. There is a need for the restructuring of IJVs to cope with rapid changes in the government's institutional requirements, which may benefit Chinese local partners with a better position in operations (Bjorkman & Lu, 1999).

2.5.3 Previous Experience

The motives for collaboration may be triggered by previous investment experience in different geographical regions of the world market (Luo & Yan, 2001). Oudenhoven & Zee (2002) believe that, if firms had experience with IJVs, they would be aware of venture partners' cultural backgrounds and their responses to different control practices during the cooperation. Because of the significance of cultural differences in international cooperation, they suggest that previous international business experience could moderate the effect of the complex culture relationships and increase the performance of the investing firms (Oudenhoven & Zee, 2002, p. 636).

A local venture partner who lacks experience of international expansion knowledge may have to rely on their foreign partner's advantage to lead them to emerge within the international market, which suggests that foreign firms may mitigate potential risks by gaining specific control over a JV's operations. Partners in JVs, who may provide more

important resources to the JV, are able to possess greater bargaining power and get the greater equity shares and decision-making control over the JV. Geringer & Hebert (1989) address this concern and suggest that firms could rely on their technical superiority and managerial skills as a means of exercising strategic control in JVs. In a similar manner, Inkpen & Beamish (1997) suggest that local JV firms could utilise their better bargaining position in JVs if the foreign partners have little knowledge about the local market environment, thus the control can be exercised to help them accomplish their JV tasks.

2.5.4 Learning Process

The literature about the IJV learning process is widely discussed and mainly focuses on the cross-cultural context (Tsang, 1998; Hong, 1999), because the speed of the learning process is determined by the parent firms' capabilities in different local situations. Dominique (2004) suggests that the effectiveness of learning through complementary JV relationships could gain an advantage in bargaining positions. From the JV strategic perspective, the absorbed knowledge usually determines a firm's success in the host country. While foreign firms operate under the cooperative structure in the host market, they accumulate market-specific knowledge and partners' know-how skills, which help them to be less dependent upon their local partners, thus gaining autonomy over time (Luo, 2001). Based on the dyadic learning relationship, it is clear that the strength of learning from venture partners allows them to gain a certain degree of control on overall JV activities, since a JV is composed of heterogeneous resources from its members.

2.5.5 Commitment

It can be said that a JV is characterised by the presence of committed individuals amongst the partners who support the creation of the JV (Buchel, Prange, Probst and Ruling, 1998).

Commitment therefore plays an important role in inter-partner relationships, which can lead venture firms to obtain control variables to lower transaction costs associated with joint operations and increase their confidence (Beckamn, Huanschild and Phillips, 2004).

When commitment is high, partners are more likely to work through difficult times together, show flexibility in accommodating each other, develop social bonds beyond singular commercial concerns, and search for mutually satisfactory solutions to emerging disagreements (Spekman et al, 1996). Recently, Pearce (2001) investigates the performance in the JV formation. He found that parent firms committed themselves to and actively participated in JV activities and were willing to transfer their vital resources in order to control venture outcomes.

2.6 Partner Selection Process

A suitable JV partner is a vital issue in JV development. Previous studies have noted that understanding the partners' differences and similarities would ensure the success of JVs (Dacin et al., 2001). In this manner, the process of partner selection seems imperative. It may provide different approaches for the choice of foreign entry strategy (Yiu & Makino, 2002), because well-matched venture partners provide the function of complementary resources (Makino & Beamish, 1998) to achieve strategic goals and objectives (Wang &

Wee, 1998), share risks and resources (Yan, 1998), improve venture control and performance (Kogut, 1988; Parkhe, 1993). Killing (1983) and Glaister & Buckley (1997) suggest that the partner selection process represented an entrance to the high performance of JV firms, because finding a trustworthy, reliable and compatible partner could be a difficult and time-consuming process but the rewards are enormous. Moreover, a number of studies on partner selection in JV have clearly identified that the choice of the right partner is key to ensure the success of business (Geringer, 1988; Luo, 1997, 2000; Yan & Luo, 2001). Not only do the compatible partners enhance a JV's effectiveness and efficiency (Ali & Eggert, 1999), but the inter-partners' fit can also create entry barriers against potential competitors and the ability to overcome unanticipated risks (Yan & Luo, 2001).

The choice of a particular 'partner' is critical to the JV performance, since the importance of compatible partners influences the mix of skills and resources. It also enhances the JV's ability to attain its strategic objectives (Tomlinson, 1970; Friedman, 1982; Killing, 1983; Harrigan, 1985). Levine & Byrne's (1986) suggest that 70 per cent of JVs fall short of expectations or are disbanded (Bleeke & Ernst, 1995). The reasons for such poor JV's performance, which can be explained by: 1) poor selection of partners; 2) partners have different strategic goals - short, intermediate, and long-term; 3) lack of effective integration between partners; 4) unequal commitment and contribution from partners; 5) managers from the parent company not being able to get along; 6) the partner is a government entity;

7) not being able to decide whose rules to follow; 8) the degree of autonomy. Thus, they found that the significance of partner selection is a key factor that influences the success of a JV.

The JV literature indicates that partner selection is a complex process. A partner selection criterion determines the future cooperation partnership. Ali & Eggert (1998) suggest that the importance of partner selection criteria is not only significantly influenced by the particular variables associated with the strategic context of the IJV and the partners, but also determined by the particular corporate histories and corporate culture of the parents (p. 1069). Tomlinson (1970) outlines partner selection process in the JV formation in his study of India and Pakistan. He attempts to identify several categories of selection criteria to ensure effective JV performance such as favourable past association, facilities, resources, partner status, forced choice, and local identity to understand the partner selection process. Such an understanding of the partner selection process concurs with Buckley & Glaister's (2002) studies of task and partner related selection criteria in which they stress a wide variety of factors related to choosing compatible JV partners with respect to goals, strategies, culture and autonomy (p. 305). Since JV firms depend on each other for the achievement of their own goals, it is important for firms to find compatibility and reliability for a long-run cooperation project. Corresponding with Brouthers & Winkinson's (1992) study on the venture partner screening process, they address the important four 'Cs' to examine closely the partner selection process in the JV framework.

These include: (1) complementary resources and skills (Geringer, 1991), (2) compatible goals and objectives (Chen and Boggs, 1998), (3) cooperative culture (Yan & Luo, 2001), and (4) commensurate risks to understand the benefits and criteria when firms are selecting an appropriate partner in the JV business (Luo, 1997).

2.6.1 Complementary Purpose

There is no firm that can be completely self-sufficient (Buckley & Casson, 1996). Chi (1994) points out that complementary relationships in JVs are key; therefore, 'JV can yield a higher total return if each set of resources are used independently of the other' (p. 275). The principle of the successful JV is to seek the best fitting partners based upon the respective competitive advantages with strong complementary features that can lead to business success. A firm's complementary strategy refers to the partner's efforts of providing valuable resources and skills, and power and cultural compatibility, which must be taken into account when dealing with collaborative partners (Geringer, 1991; Saul & Chekitan, 1997; Pearce, 2001).

The obvious result of complementary motivations can be identified when JV partners are looking for compensatory resources, for example, technical expertise, equipment and financing supports, facilities and the labour force, close contacts with government agencies, and market access and distribution. Therefore, JV can be seen as a bridge to connect the parties together for resource sharing (Pfeffer & Salancik, 1978). Knowledge about other

scarce resources can be obtained via such cooperative formations with other firms (Cleeve, 1997). However, the best illustration of complementary relationships in JVs occurs in the developing countries, where local partners can supply abundant labour resources for its foreign partners at very low cost. At the same time, local partners have opportunities to acquire efficient management styles and advanced technology during the collaboration process (Luo, 2000; Yang & Lee, 2002). In fact, as result of the concept of complementary functions, foreign enterprises are able to accomplish properly their objectives and enhance their competitive advantages such as products and process know-how, product market knowledge, access to markets and distribution channels, spare manufacturing capacities, scarce raw materials and unique management resources.

It has been found that there is a positive relationship between a firm's specific advantages and the willingness of cooperation which influences the outcomes of JV (Yiu & Makino, 2002). Geringer (1988) also suggests that if firms have heterogeneous resources, there will be a high degree of motivation for firms to complement each other since there were few firm-specific advantages overlapping between partners. Given the above discussion, it is clear that the complementary strategy offers the greatest opportunity for alliance effectiveness (Bucklin & Sengupta, 1993). The collaborating firms may perceive this formation as an important channel to access partner's critical resources, but the most important aspect is that it enhances firms' competitiveness and capabilities in the particular market. Therefore, the ultimate goal of the JV collaboration is the long-term

competitiveness between partners. Indeed, such complementary relationships can only be sustained through the partners' contributions to each other based on sharing interests and benefits.

2.6.2 Congruent Goals

Previous JV studies have highlighted that incongruent goals in JVs create a negative effect on inter-firm cooperation relationships. Clearly, conflicts and problems are more likely to arise if there is inconsistency in the partners' objectives (Geringer & Herbert, 1991; Pearce, 1997, Pearce, 2001). Yan & Child (2003), in particular, note that many JV partners are unable to meet their objectives in JVs because of asymmetric goals, which may influence their collaboration relationships under competitive situations. Therefore, the initial cooperation stage that JV partners should emerge together with similar interests such as business expansions or corporate growths that can closely bring them together as a JV to pursue their strategic goals.

With regard to the significant influence resulting from incongruent objectives and goals (Beamish et al., 1994), two possible options may allow venture partners to resolve the problems of goal incongruence. First, a committed party is more likely to give the goals of the relationship a higher priority than its own goals in order to reach satisfactory compromises when conflicts occur. Evidence shows that strong commitments will have a positive impact on the performance of a JV based on partners' attitudes to the collaboration

formation (Luo, 1997). Second, communication is essential for the cooperative learning process, which allows venture partners to adjust their goals and objectives effectively to achieve their maximum benefits especially when parent firms join together.

It has been found that congruent goals of IJV and performance have a positive relationship, which may suggest that JV partners' common goals and objectives are significant for satisfactory JV performance (Yan & Luo, 2000). Otherwise, cheating and opportunistic behaviour would occur, since partners have difficulty in reaching their best interests in cooperation (Glaister & Buckley, 1997). A JV is a long-term cooperative strategy. It is imperative for JV parent firms to have congruent goals and to fulfil their commitments in order to prolong the cooperative relationships in the host country.

2.6.3 Unforeseen Risks Reduction

In addition to complementary and objective compatibility in partner selection criteria, uncertainty reduction is probably the most important consideration for forming a JV entity, which not only allows the firms to share the risks and costs of foreign entry, but also helps firms obtain a partner's local knowledge about the local institutional framework, local consumer tastes, and business practices (Agarwal & Ramaswami 1992; Erramilli 1991; Gatignon & Anderson 1988; Gomes-Casseres 1989, 1990; Kogut & Singh 1988).

Collaboration in a JV can be seen as a reason for participation because of risk sharing, resources pooling, assets protecting, whereby the parent firms will have the ability to react

quickly to market changes (Pan & Tse, 1996). It has been found that suitable partners can help foreign firms deal with unexpected issues within the cross-border cooperation context, such as complex policies or regulations (Das & Katayama, 2003), distribution channels (Luo, 2000), misguidance of social networks (Scott, 2000), misunderstanding of cross-cultural management (Hutchings & Murray, 2001). Utilising the local partner's resources will provide foreign firms with an uncertainty risk-avoidance feature, which is the main reason for adopting the JV strategy for a foreign firm. Tiessen & Linton (2000) claim that firms establish a JV formation when entering the market to avoid the uncertain variables that will influence the cooperation performance. As a result, effective use of synergy functions for JV strategic techniques means that firms are able to share the risks with other members with minimum costs (Luo 2000, p. 483) to increase the market performance (Luo, 1997) and reach a common goal (Lewis, 1990). In other words, assigning responsibility to the JV partners can eliminate potential management or operation problems (Child & Yu 1996, p. 90). Knowing the benefits perceived by local and foreign partners derived from an IJV, JVs clearly can be seen as an instrumental tool for minimizing risks and threats when firms conduct overseas investment activities especially in an unfamiliar environment.

2.6.4 Cooperative Culture

The fourth factor in selecting a suitable partner focuses on cultural differences and conflicts during the cooperation process. The cooperative cultural relationship is an essential issue, because it can enhance JV performance and achieve specific goals for a successful JV (Glaister & Buckley, 2003). A number of studies have provided some explanations for JV partner selection from a cultural compatibility perspective. Li et al. (2002) argue that, for a given context of strategic international cooperation, cultural factors might affect the management practices in terms of communications and decision-making processes. JV certainly offers an effective solution for protection and stability for new entrants who are unfamiliar with the host markets and environments and cross-cultural differences when gaining access to the market. First, with help from JV partners firms will feel less vulnerable (Pearce, 2001), especially in an environment that is completely different from the home market. Second, when foreign firms establish a foothold in the host market, they are considerably affected by at least two different cross-cultural values. Because of ignorance of 'cultural differences' firms will be unable to take full advantage of available opportunities (Sergeant & Frenkel, 1998).

Beamish (1993) argues that cooperative culture could be dealt with on two levels: national culture and corporate culture, which might be associated with the control capability in accordance with the partners' strategies. From the corporate culture perspective, each firm has developed its unique corporate culture and characteristics under different environments

over a certain period of time (Weber & Camerer, 2003). In this sense, they rely on their own perception of the recognised partner's culture and behaviour and turn those cultural conflicts into effective collaboration strategies (Wildridge 2004, p. 8). For instance, as managers in JVs will usually encounter cultural tension within the completely different corporate culture systems, this potentially brings negative consequences to unavoidable conflicts (Parke, 1991). Therefore, as Ritchie (2000) suggests organisational culture can affect organisations' outcomes in productivity, performance, commitment, self-confidence and ethical behaviour.

From the national culture perspective, partners with high cultural similarity are more likely to achieve their goals because of a better fit and fewer conflicts. Oudenhoven & Zee (2002) argue that the cultural similarity in international cooperation formation is that the 'firm may not only profit from experience in similar countries but also from knowledge and insights gained from experiences in countries with a cultural background that closely resembles the culture of the current cooperation partner' (p. 639). Luo's (2000) study on multinational companies in China stressed that if firms had affiliated cultures that might facilitate efficiency and effectiveness in an uncertain environment. Barkema and Vermeulen (1997) support this view. They have found that the partner's national cultural differences are disruptive to IJVs, since JVs cooperation involves potential risks and problems. However as a counter point to this, Oudenhoven & Zee (2002) have also found that JV partners with low cultural similarity might stimulate partners to work closely

together, which would provide a chance for partners to understand the differences of cultural background, attitude and behaviour between partners (Oudenhoven & Zee 2002).

2.7 Performance and Joint Venture

Performance is defined as the degree to which a JV accomplishes the parent firm's goals and objectives (Geringer & Hebert, 1991; Gray & Yan, 1994); which means that both partners are fulfilling their promises in relation to the JV strategy, and thus they are more likely to collaborate in governing their joint creation. This, in turn, will improve JV performance. Shuman (1998) highlights the general idea of the evaluation of JV performance, because when two or more companies form a JV and conflicts increase over time, the performance evaluation method should be different from other foreign direct investment (FDI) entry modes. In this sense, previous studies on JV performance have widely addressed different measurements ranging from profitability indicators to non-financial capabilities.

Although traditional profitability measurements are important indications for a firm's financial performance (Lecraw, 1984; Luo, 1998), they are not sufficient to evaluate the JV performance (Chowdhury, 1992). Success of JVs has been identified with the impact of one single explanatory factor such as control between JV partners (Banchot & Shuman, 1998) or fulfilment of expectations during cooperation (Geringer & Herbert, 1991). Given to more specific explanations Beamish & Delios (1997), state:

in a more fine-grained categorization, performance can be defined as the survival, duration, instability, or failure of the joint venture; the degree of parental control; the effectiveness of technology transfer; the extent to which financial goals are realized; the degree of managerial satisfaction; and so forth (p. 105).

The successful collaborative strategy mainly relies on human interactions in the long run (Wildridge et al., 2000). Previous studies have suggested that the recent studies of JV performance tend to measure overall JV activities using non-financial perspectives such as partners' satisfaction (Schaan, 1983; Killing, 1983; Beamish, 1987; Blumenthal, 1988; Habib & Burnett, 1989). The complexity and ambiguity of relationships in managerial issues between foreign companies and local partners make management practices in the venture structure potentially important. Therefore, Wildridge et al. (2004) strongly suggest that the inter-partner relationship is a key to reach a successful JV. Inevitably, the focus on the inter-firm behaviour needs to be reviewed to address the notion of JV performance and survival. As Pearce (2001) suggests the importance of operations and management between partners will facilitate the JV integration process for high levels of positive inter-firm cooperation, which includes management relationship, culture influence, communication skills and decision-making process. It has been found that such a positive relationship between venture partners yields high degrees of cooperation efficiency and profitability.

2.7.1 Strategic Joint Venture Management

In addressing the cooperative management performance, it is apparent that the priority issue of the venture partners' management relationship needs to be reviewed to understand its important role in the JV's operations. A number of studies have revealed the important role of the management relationship. For instance, the inter-organisational cross-culture issue will affect the partners' interactions and create problems in managing (Sing Keow, 1999). Frequent partner interactions will reconcile partners' similarities or compatibilities, which are demonstrated by the partners' behaviour and which will affect the JV performance. Thompson's (1967) classic formulation⁴ states that interdependence among units in an organization is embedded in the logic by which they created value through interacting with each other. This description fits the JV context because it suggests that inter-organisational partners' relationships or synergies are significant in JV management. Sing Keow (1999) suggests a suitable balancing point must be found to reconcile 'the parents' priorities and their different sets of objectives' (p. 348).

2.7.1.1 Manager Styles and Competencies

Joint venture management involves much more than working out structure. Formal structures are relatively easy to create. The real problems begin when the action starts within those structures and processes of change begin (Bettina, Christiane, & Gilbert, 1998).

⁴ James Thompson, who adopted the work of March and Cyert in his 1967 book, *Organizations in Action*, where he used the term "dominant coalition". He concludes there are certain constraints on coalition building, mainly the organization's technology and environment. Thompson theorized that the more uncertainty in organizations due to technology and environment, the more power bases that exist. The coalition grows as the uncertainty increases.

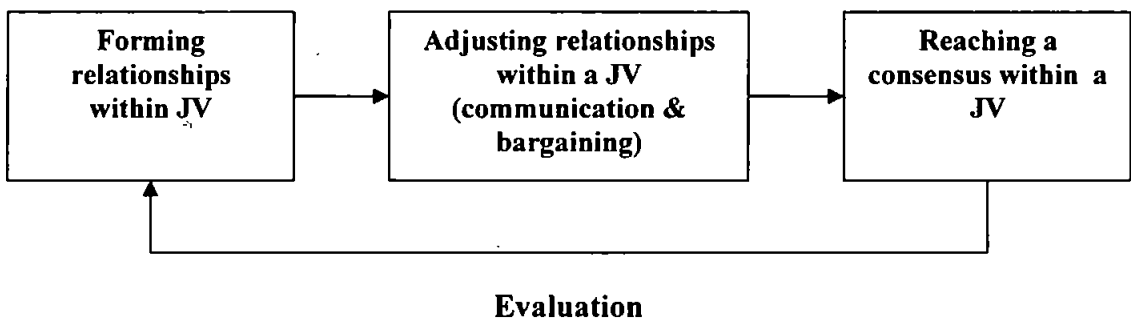
Many studies have found that all JVs have high degrees of conflict and are particularly unstable in IJV management issues because of differences in venture partner's background (Parke, 1993; Pearce, 2001). Since managers are joined together from both partner firms, management of IJVs becomes a very complex and difficult challenge. This is especially evident when they differ widely in their national origins, cultural values, and social norms, as well as their demographic background and international experiences with the parent firms (Li, Xin, Tsui and Hambrick, 1999).

JVs in China have been found to be exceedingly difficult to manage, often leading to parent dissatisfaction and high failure rates (Beamish, 1998; Dacin, Hitt & Levitas, 1997; Kogut, 1989; Lei, Slocum & Pitts, 1997). Gomes-Casseres (1988) argues that rather than promoting cooperation, JV should be institutionalised such as making an agreement about the venture's management in order to reduce the high organizational costs (Slaikeu & Hasson, 1998). A JV is a learning process; partners have a significant amount to learn from each other to achieve a long-term cooperation success (Dyer & Singh, 1998; Hitt et al., 2000; Dominique, 2004).

In Sino-Western JV cases Western managers may understand the market environment relatively well, but in too many situations the Western and Chinese parties have conflicting objectives and plans (Osland & Bjorkman, 1998). When large conflicts do occur, joint management will become costly and may lose its advantages, because the JV was formed

to reduce time and maximise available resources to access the host market (Gomes-Casseres, 1989). In order to mitigate this problem, training before launching the JV operation is necessary.

Figure 2.6: Joint Ventures' Managerial Performance



2.7.1.2 Cultural Factors in Joint Venture Management and Operation

Culture is a system of shared values, and thus serves two critical functions which provide a solution for overcoming cultural differences in terms of JV formation: external adaptation and internal integration (Schein, 1985; Schneider, 1989; Barkema & Freek, 1997). Because of considerations of environmental uncertainty, external adaptation is a way for venture partners to perceive and respond to their environment based on their objectives and strategies (see Section 2.6.3, p. 87), hence the cooperative structure will be more likely to succeed in the host country (Luo, 2000). On the other hand, internal integration can be seen as a way of building up or maintaining the organisation's relationship with its employees (Schneider 1989; Schneider & De Meyer 1991) and creates an appropriate working

environment between venture firms to increase their competitive advantages (Si & Burton, 1999).

Knowledge of the cultural differences will affect the JVs' operational and managerial process, which may cause significant changes in the JV's development (Child, 1994; Yan, 2000). In this regard, the JV formation requires that firms meet the challenges concerning the differences of the local partner's culture and the host country's environment. The importance of culture has been highlighted in the IJV's framework, which includes communication, cooperation, commitment, and conflict resolution (see Chapter 2, p. 89). In other word, cultural differences between partners may affect the JV formation, and create conflicts and make them difficult to manage during the cooperation (Jemison & Sitkin, 1986; Barkema, Bell & Penning 1996; Shenkar & Zeira 1992; Woodcock & Geringer 1995). For instance, Stavis & Gang (1988) found that Western firms encounter difficulties when forming a JV in China owing to cultural and management style differences. Therefore, cultural similarity in JV management provides a benefit for venture partners via the similarity of communication patterns, cultural beliefs and decision-making. These similarities not only enhance partners' relationships between each other, they reduce the communication barriers and conflicts in managerial practices. Even if partners' conflicts do arise within similar cultures, it is still easier for both partners to understand each other and to resolve differences. The chance of survival of IJVs may be higher when

the cultural distance between the home country of the expanding firm and the host country is small (Barkema et al. 1996, 1997; Li & Guisinger 1991).

2.7.1.3 Communication Flows

In a JV setting, there is an intimate interaction and communication between the employees of the venture partners. Moreover, communication is the most important element to stabilise the venture firm's relationship not only for the management aspect, but also for seeking their common ground toward its objectives (Yan, 2001). If partners are reluctant to share or exchange information within organizations, this may slow down the problem resolving process (Child, 1994). Without communication, asymmetric information will damage the internal and external operations of the whole JV set of activities such as staff morale, customer loyalty, suppliers trust, and other business relations. Hoon & Sing (1999) suggest that venture organisation 'communication' between people from different departments both vertically and horizontally would become cumbersome, if there were too many decision-making levels. In particular, in JVs associated with a high-tech complex environment, good communication seemed more important, since barriers hampered production and maintenance performance (Si & Burton, 1999).

Effective communication also needs to consider the venture partners cultural background and style, which will influence their communication behaviour and performance, since they have problems in the exchange of information and the explanation of their objectives

and expectations during daily operations. In relation to communication difficulties in the IJVs context, the language barrier may result in many communication problems, directly leading to mistrust and hamper the cooperative relationship and the JV's future development (Li & Tsui, 1999). For example, many expatriate managers working in the host country have little understanding of the local language and culture. This can cause often ambiguous and conflicting experiences in the JV.

2.8 Summary

A JV has been defined as 'two or more legally distinct organisations, each of which actively participate, beyond a mere investment role, in the decision-making activities of the jointly-owned entity' (Geringer, 1991, p. 4). Building an effective cooperative structure has to take account of many different kinds of issues, such as the motives or knowledge of forming a parent firm for the JV, the ownership and control structure of the JV, the compatibility of the JV companies, the complex partner selection process and the understanding of JV performance. The objective of this chapter was to get a better understanding of how firms proceed in the JV process. The perspective of transactions cost and resources dependency theories have been used to analyse and explain the process of the JV formation, the importance of the partner selection, the relationship between ownership and strategic control, as well as JV performance. For example, the transaction costs and resources independence reflects the degree of the partners' desire to achieve JV goals and objectives by strategic control over JV activities. Transaction cost supports the firms' strategic behaviours in JVs, because it provides a function to overcome the risk of opportunism and reduce the cost of market transactions. However, the resources dependency provides a chance to access partners' resources and promote resources interdependence through inter-organisational linkages.

The importance of the ownership structure is associated with the capability of control in the JV organisation. Strategic ownership provides an overview of different positions in the JV structure. Three main types of ownership structures can be identified: equity, contractual and non-contractual, which make a significant impact on the IJV's performance. Equity JV structure is the most popular form in the JV, which generally explains the ownership and control relationship by specifying three different types of strategic positions in accordance with their equity shares such as majority position, equal shares position and minority shares position.

Control is an important mechanism within JV operations, especially when venture partners need to make joint decisions regarding profits, market shares, or resources. From the strategic point of view, it is important for firms to gain control within a JV structure to reduce critical uncertainties. Motives for controllability usually result from environmental influences, government regulations, previous experience, bargaining power, the learning process, and commitments to meet their expectations.

A 'complementary' partner in a JV is a key cooperation success (Geringer, 1991). Thus, not only can the compatible partners provide the effectiveness and efficiency for cooperation, but also the strategic fit for collaboration can create entry barriers against potential competitors and overcome unanticipated risks. Geringer (1991) and Buckley & Glaister's (2002) studies of task and partner-related selection criteria stress a wide variety

of factors related to choosing compatible JV partners such as their strategic goals and objectives.

The partner selection criteria helps firms find a potential partner and will affect future JV performance. In particular, it is important to address the important four 'Cs' framework in the partner screening process (Brouthers & Winkinson, 1992). First, the complementary purpose is the most crucial reason for firms to form a JV with partners while they can share valuable resources, skills, power and risks. Second, congruent goals enable parent firms to work together to achieve their best interests during the period of collaboration. Third, risk reduction reflects the firms' intentions for JV strategies by sharing responsibilities and risks. Particularly, a compatible partner helps firms deal with unanticipated issues during the cross-border operations. Lastly, the cooperative culture provides the awareness of 'cultural fit' cooperation relationships, which includes the degree of differences and similarities in corporate cultures and national cultures within the IJV context.

The complexity of the structure of JVs means that they are a much more difficult form of organisation to manage. As a result, JV performance is heavily related in the literature to cooperation management and relationships because behaviours and attitudes may determine the success of JV cooperation. The literature has mentioned it is important to build and maintain cooperative relationships with venture partners. Owing to the complexity of management, parent firms have to focus on their management strategy and

managers' characteristics and background in order to avoid conflicts regarding intercultural cooperation. Understanding the key to success for a JV is largely relying on its managerial skills and knowledge; the level of similar cultural background may help to build up a long-term commitment and trust in achieving the highest level of JV performance. The next chapter will introduce the function of Chinese interpersonal relationships (guanxi) in helping firms to achieve their goals through the JV formation in the People's Republic of China.

Chapter III Chinese Guanxi Networks & International Joint Ventures

3.1 Introduction

A growing number of studies of Chinese communities and markets have advocated the importance of interpersonal network ties (guanxi). These studies focus on: the social mechanisms of Chinese business transactions (Kuo, 1996); different guanxi network ties in Chinese society (Hwang, 1997); guanxi as a special informal institution (Xin & Pearce, 1996; Gold et al, 2002; Li, 2003); social network embeddedness and the resource base of guanxi in Chinese economic activity (Lo & Otis, 2003); guanxi influence on achieving business success (Yeung & Tung, 1996); the significance of guanxi in marketing relationships (Arias, 1998); the value of guanxi advantage for transaction cost reduction (Standifird & Marshall, 2000). All of these issues contribute to understanding the value of guanxi in China's contemporary business environment.

Several studies have argued that the significant usage of guanxi relationships will become less important in the Chinese environment (Guthrie, 2002), particularly as China's institutional and market environment are continuously improving (Hutchings & Murray, 2002). However some disagree with this point of view. They argue that guanxi will continue to play a significant role in business interactions in Chinese society as social networks are still significant to Western society (Nee, 1992; Xin & Pearce, 1994; Luo & Chen, 1996; Yeung & Tong, 1996; Takahashi, 1997). Given the dynamics and significance of guanxi values in Chinese communities, this may help to explain the different degrees of

guanxi usage in some particular areas (Buttery & Wong, 1999). Studies have shown how prevalent guanxi is in Chinese communities in Hong Kong (Wong & Ellis, 2002). In Taiwan guanxi has been studied as it facilitates businesses operations (Lin, 2001). In Singapore, guanxi has been shown to be a useful tool to obtain significant information (Bian, 1997), while research in Mainland China identified guanxi as prevalent in everyday business practice (Gold et al., 2002).

This chapter will begin by defining the distinctive nature of the guanxi function. This will be followed by an exploration of the guanxi interaction relationship and connection phenomenon within the Chinese business framework, which involves various specific aspects, such as the guanxi practice of cultivating personal relationships and the exchange of favours and gifts for the purpose of obtaining goods and services, developing networks of mutual dependence and creating a sense of obligation and indebtedness (Yang, 1994). Then, guanxi networks will be placed in the Chinese JV context to identify the significance of the guanxi element and its function, also exploring the differences of guanxi usage among venture partners.

3.2 Defining Guanxi

Guanxi is an important concept in the Chinese social culture environment (Hwang, 1987; Chen, 2001; Luo, 2000; Gold, Guthrie & Wank, 2002; Chen & Chen, 2004) and, literally translated, it means personal relationships or connections (Davies et al, 1995; Bian, 1997; Wright et al, 2002). But the concept is more than just establishing or exchanging relationships. It is strongly embedded within Confucian philosophy (Fock & Woo, 1998). According to different interpretations of the word guanxi, 'Guan' usually refers to gate, door, pass or barrier (Chee & West, 2004; Chen & Chen, 2004) and 'Xi' means connections (Jolly, 2005) and has the connotation of 'hierarchy' (Chee & West 2004, p.61). When 'Guan' and 'Xi' are combined which represents interpersonal relationships or connections (Tsang, 1998) as well as emotional support (Luo, 2000) from others such as relatives, friends or acquaintances. Guanxi can be used as a verb to establish, maintain or develop a relationship with someone based on different purposes. However, the meaning of 'guanxi' is far more complex than the English translation suggests (Gold et al., 2002). Guanxi not only refers to the concept of drawing on connections, but also includes securing personal or business relations (Luo & Chen, 1996; Weir & Hutchings, 2006). Yeung & Tung (1996) defined guanxi as connections between two independent individuals to enable a bilateral flow of personal or social transactions. Building from Tung & Worm's (2001) guanxi network concept, Parnell (2005) suggests that it might be too simple to assume that the term 'guanxi' can be translated as personal relationships because:

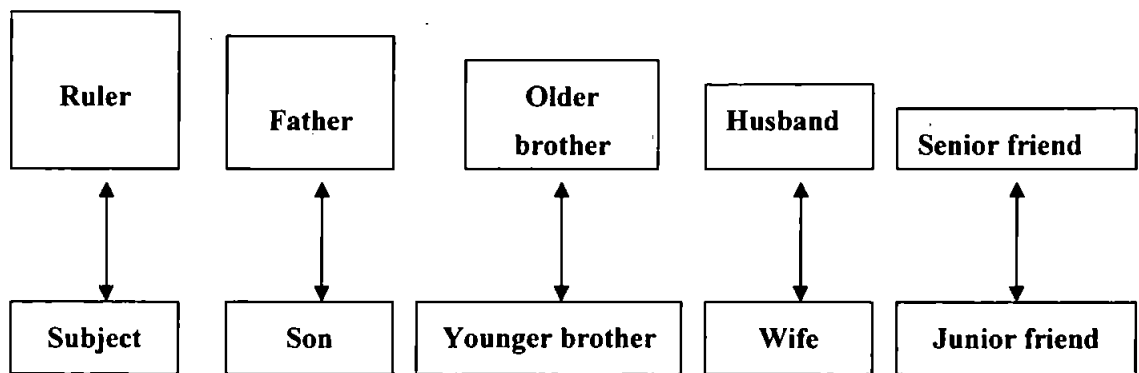
The term guanxi refers to relationships among people. They are dyadic, personal relations between people who can make demands on each other. The stronger the guanxi, the more demands can be imposed. The Chinese refer to this as the 'hardness' of a guanxi relationship. The Chinese, along with some non-Chinese, are involved in many dyadic relationships, which together form a guanxi network (guanxiwang) (Parnell, 2005, p.521).

Guanxi covers the variation of personal relationships, so it needs to be established on the foundation of some common points (Yi & Ellis, 2000) which capture its transferable but not substitutable characteristics (Gold et al., 2002). Standifird & Marshall (2000) agree with this view and cite Tsang's (1998) study of guanxi transferable characteristics, for example, 'if person A wants to make a request of person C with whom A has no guanxi, A may seek out a member of his or her guanxi network, person B, who has guanxi with C. Given B provides A the introduction to C, a guanxi relationship may be established between A and C' (p.2). To some extent, to the guanxi transferability point of view, this can reflect the un-substitutable character of guanxi, since B introduced A to C in order to obtain certain resources or opportunities. Nevertheless, such an introduction may or may not transform outsiders into insiders, but it certainly extends their relationship boundaries and favours their information availability in the future.

3.3 Guanxi Networks

Guanxi networks have been widely studied by many social scientists (Hwang, 1987; Fei, 1992; Aufrecht & Bun, 1995; Bian, 1997; Wong, 1998; Hackely & Dong, 2001). The central point of guanxi represents stronger personal relationship networks involving key informants. Guanxi building is an ongoing process in order to establish guanxi networks (guanxiwang), which depend on whether particular individuals possess certain attributes in common such as speaking the same dialect, sharing the same habits or joining in the same activities (Parnell, 2005, p. 36). The quintessential notion of guanxi networks may be traced back to the ancient Chinese philosophy of Confucianism¹. Its emphasis is on the term of traditional Chinese characteristics and value systems, such as hard work, respect for authority, harmonious relationships and obligation to the family (Smith, 1986). Personal interaction is also considered; therefore, the root of a guanxi network lies at the heart of Confucianism and the 'Five Cardinal Human Relationships' which have clarified the importance of each individual role in the Chinese socio-cultural system and environment. According to Menkoff & Gerke's (2002) study of Chinese business networks, these 'Five Cardinal Human Relationships' are: ruler-minister, father-son, husband-wife, brother-brother, and friend-friend (Campbell & Adlington, 1988; Chen & Chen, 2004) and are important elements in the Chinese network construction and the formation of Chinese communities, which encourages that they should help and trust each other (Figure3.1).

¹ Confucian ideology, group-oriented social structures, and advanced education systems can all be found in South Korea, Taiwan, Japan and China (Hill, 2003).

Figure 3.1: The Five Chinese Cardinal Human Relationships

Adapted from Lewis Richard D., 2000

Such types of relationship are deeply embedded in Chinese culture and daily life². Even though in recent decades China has experienced major political and economic turmoil, such as the Culture Revolution or the Great Leap Forward, guanxi networks still remain important, particularly for obtaining information and for exchanging resources (Gold et al., 2002). In fact, existing literature has identified that different types of guanxi networks in Chinese society and business environments have been regularly practised (Redding, 1990; Orru et al., 1991; Whitley, 1993; Lever-Tracy, Et al., 1996; Wong, 1999; Blackman, 2000; Luo, 2000). For example, family ties can be described as an original source of guanxi, because family is at the core of guanxi networks (Hwang, 1987) and may be regarded as the most important relationship among all types of guanxi networks (Tsang, 1998). On the other hand, friend networks can provide more extensive information, resources and supports which will not be available from other networks (Phillipson, Allan and Morgan,

² Lewis (2000) describes that Confucianism exercises a strong influence on the daily lives and business cultures in China, Japan, Korea, Taiwan, Singapore, Hong Kong and to a lesser extent, other East Asian countries (p. 382).

2004). While family and friend networks provide a fundamental need function, guanxi also has an instrumental characteristic which provides a solution to getting things done (Lin, 2001). With such instrumental network functions, Yeung & Tung (1996) suggest that such close networks among people and businesses can lead to connections with the right people, which usually is a key function in business decision-making.

Similarly, Hwang (1987) identifies three kinds of guanxi network ties - expressive, instrumental and mixed ties - with different patterns of purpose in Chinese society (p. 950). For example, expressive ties include family members, close friends and other frequent contact persons. Strong relationships and a high degree of trust may be observed and expected in this case. Whereas an instrumental tie for network participants is aiming to achieve goals without developing stable and long-term relationships. Luo & Chen (1997) suggest that friendship-type networks will provide distinctive functions such as 'internal transaction reduction' or 'external information collection' in order to complete specific tasks. As for 'mixed tie', these not only comprise expressive and instrumental relationships and behaviour, but also have their own distinctive networking systems based on the instrumental purpose of each relation.

Hwang (1987) presents the opinion of a prominent Taiwanese psychologist, who explains in the following way why this instrumental use of guanxi arose and persists in Chinese society in terms of both cultural and structural factors:

Part of the answer is cultural. Through historical accident coupled with manipulation by political and cultural elites, in ways that we cannot now unravel, the Chinese have developed an elaborate vocabulary for thinking about interpersonal obligations and how they can be won or lost... The other part of the answer is structural. Historically, and, to an extent, even in modern contexts, many Chinese have lived in encapsulated communities that are hierarchically organized, with major economic and other resources controlled by a few power figures who could arbitrarily allocate resources. In these settings, it has been imperative to be sensitive to one's social position and to the kinds of resources that one could elicit and be forced to give up through obligations incurred over long periods of time (Hwang, 1987, p. 953).

From the business perspective, firms in Chinese society build the relationship first; if successful, transactions will follow (Luo, 2000). For this reason, guanxi seems to pave every possible way to give one an opportunity to establish relationships in almost every aspect, since a relationship has to be identified in the first place. The main characteristic of guanxi lies in the reciprocal obligation, which extends the connections with other individuals and groups during the business practices and is not merely limited to family and kinship (Bian & Ang, 1997). Substantial time and effort needs to be invested to construct, develop or maintain the wider range of guanxi networks. King (1993) suggests

that the more attributes from individuals, the more capable they can be to establish guanxi within the social units.

In a complex economic environment, four main benefits of guanxi networks in the business process have been identified and have shown a positive effect on guanxi users when developing business in China (Davies et al., 1995; Leung et al., 1996; Luo & Chen, 1997). First, since China's market has not reached its maturity, guanxi helps individual or groups to obtain information on government policies, market trends, and business opportunities. Second, given the guanxi benefits for obtaining information, it also helps business partners to reduce uncertainty by establishing special relationships with other firms or partners to hedge the risks. Third, it may improve efficiency, save time and ease the business transaction of necessary resources (e.g., government licenses, utilities and local supplies of labour and materials). Last, it provides benefits for reputation-building for the positive image effect on people or firms in order to take an advantageous form in different areas, such as logistics services and payment collections.

Because guanxi is a continuing relationship exchange process, it is necessary to explain the several essential elements for guanxi construction and maintenance process, because without them guanxi would not work. Moreover, those guanxi elements are created and manipulated through human relation interactions and influence individual behaviour within

the groups; for instance, favour (Wong, 1998), trust (Wong & Tam, 2000), gift-giving (Yang, 1994) and face (Hwang, 1987), which are all unique features for guanxi owing primarily to its cultivation of long-term personal relationships.

3.3.1 Importance of Favours (Renqing)

Renqing (favours) can be interpreted as human feeling or sentiment, which plays an important role in guanxi practice. In order to develop the good quality of guanxi, it needs constant cultivation (Pye, 1992), maintenance (Marshall & Standifird, 2000) and the development of special long-term bonding. Pye (1992) describes guanxi as friendship with implications of continued exchange favours, and each of the guanxi links is supported by a great deal of 'sentiment' and 'emotion' (Lin, 2001). Gold et al. (2002) praise the human sentiments that are attached to guanxi, because they indicate that, through communication, guanxi users can manipulate human feelings for the specific purpose of their practices. Favour is created by drawing connections and networks together, which can be considered as a form of social capital for commercial credit extension (Luo & Chen, 1997). In China, people regard qanqing (sentiment), guanxi, and mianzi (face) as a means of influencing people or obtaining social resources (Wong & Leung, 2001), especially as these involved have to devote themselves using substantial time, money, and effort to create and maintain social guanxi (Tsang, 1998).

Renqing is a unique feature of guanxi, because through the exchange of favours and gifts those guanxi users have a chance to obtain goods and services, develop networks for mutual dependence, and create a sense of obligation and indebtedness (Yang, 1994). The Chinese use different techniques to strengthen their guanxi with different types of groups. Li (2004) recognises that one feature of guanxi concerns the reciprocal obligation to return favours with mutual obligations (renqing) and rights because of common interests and resources. Understanding how guanxi works can provide explanations of the term 'renqing' in the complex Chinese relationship system. Yan (1996) identifies four different important meanings related to reciprocal obligation (renqing) in guanxi networks, such as: (1) human feeling and emotional responses; (2) a set of social norms and moral obligations within guanxi networks; (3) assets or resources through gift or favour exchanges; (4) renqing as a synonym for the importance or size of guanxi network³ (p. 123). Hence, the instrumental value of guanxi can be explained in a series of favour exchange processes and provides a foundation for long-term relationship development. Though favour transactions are sometimes very typically time- and resources-consuming, it can indirectly or directly link to new information resources and opportunities in terms of personal or group interests. Favour exchange in personal relationships becomes a powerful strategic contingency in environmental uncertainty which bests a firm with long-term commitments and benefits. Since guanxi becomes a way of life at every level, it is worth investing time or money in

³ In Yan's (1996) study of the principle of reciprocity and renqing ethics, she explains that renqing is used as synonym for guanxi, because Chinese people may talk about how much renqing they possess when they are referring to the size of their guanxi networks.

personal connections. It is believed that continuing to place a premium on favour obligations within the group of friends, relatives, and close associates will facilitate access to solutions to a range of concerns (Graham, John, Lam and Mark, 2003).

3.3.2 Face (Mientze)

Mientze (face) needs to be taken into account when considering guanxi practices in China. In particular, it is one of the major factors in establishing guanxi networks. Face may be viewed as a 'key element in the development and maintenance of guanxi' (Standifird & Marshall, 1998, p. 343) as well as part of 'social capital' (Chen & Luo, 1997). Face and favour usually work together in the Chinese interpersonal relationship context. The most difficult part in the guanxi networks is how to maintain everybody's 'face' in a fairly flexible manner. Hwang (1987, 1998) has illustrated the complex relationship in Chinese society which involves two significant ingredients such as face and favours in the game of Chinese interpersonal relationships. He stresses that Face represents a public image in Chinese societies, which basically is determined by one's performance. Therefore, 'people's conduct should meet their moral or ethical demands in accordance with their social roles' (p. 5).

Face in guanxi relationship can facilitate the process of bonding relations. For example, giving someone face will lead to important favours in return since the concept of guanxi is a set of reciprocal relationships. In this sense, the concept of guanxi can explain the idea of mientze (face) (Smart, 1993), because face refers to individual social status, and giving or losing face is usually reflected in a person's trustworthiness in the particular relationship. As suggested above, face plays an essential role in the guanxi-building process (Hutchings & Murray, 2001) and is an important indication of the utility of one's guanxi networks (Hwang, 1987; Wu, 2000).

3.3.3 Importance of Trust

The guanxi relationship is deeply rooted in Chinese culture. Trust can be considered as the most important component within the entire guanxi connective or interactive system, which holds the key to connect people together (Xu, 1996; Tsang, 1998; Wong & Chan, 1999; Yi & Ellis, 2000). In the guanxi context, Hill (1995) and Bian (1997) both suggest that guanxi can only be produced from trust-based exchange relationships and is the result of relatively long-term interactions and the basis for future exchange relationships. Hence, if a trust relationship can be built up in the first place in a relationship, it can enhance the likelihood of future cooperation and an orientation towards mutual benefits (Luo, 2000). In other words, without trust, those individual or group relationships will be superficial and they will not benefit from the guanxi relationship.

Trust can be established only when both parties have reached a mature level of interdependence, and trust will then be created to eliminate opportunistic behaviour. Yu (2001) observes that Chinese family business companies are building up through extensive interpersonal networks, and trust is established while they reach a high degree of mutual dependence. What makes it more special is that moral obligation has been reinforced in every aspect of family business to maintain its reputation and overcome unexpected problems. Weidenbaum (1996) also finds that Chinese businessmen tend to trust close friends and relatives, not outsiders, because of strong family business values. Particularly, Chinese or overseas Chinese entrepreneurs regard trust as playing an important role when dealing in business activities. Poppo & Zenger (2002) review the role that trust plays in the relational governance substitutes. They confirm that parties in cooperative relationships increasingly rely on relational norms to govern their exchange to ensure better performance, since customised contracts cannot eradicate possible opportunistic behaviour (p. 721).

If one loses trust in guanxi, all special kinds of social connections would cease, the link between two individuals would be unable to continue in a social interaction and exchange. Trust can be fraught with danger, if people are suspicious and tend to distrust strangers. 'Trust' can only be transmitted via the guanxi relationship. Even the business relationship must be formed with it (Hui & Graen, 1997; Graham et al., 2003). Wong & Leung (2001) argue that Chinese people tend to mistrust others with whom they are not familiar, or who

is not in a known a guanxi network. A typical example is if a firm promises certain things and delivers as promised, the firm equips trustworthiness and the Chinese would be more inclined to deal with them on a long-term basis. Mutual trust constructs between help-seekers and help-givers based on the risky nature of their 'misconduct', and a sense of reciprocal obligation that had long been established between them provides the binding power for their exchange relations in China (Bian, 1997). Although guanxi is useful in the Chinese business context, it cannot guarantee a firm's success (Chen, 2001). The partner's trust relationship and behaviour on a long-term basis can increase synergistic functions in fostering business operations. In essence, the entire guanxi process seems to comprise gift-giving, face-giving and favours exchanging which are all part of business facilitation towards a firm's development. Consequently, the guanxi network does require the trust element to form different ties or relationships, as people have different intentions or interests in interacting with other's behaviour.

3.3.4 Gift-Giving Behaviour

From the sociologist's and anthropologist's point of view, Smart (1993) explains that the character of gift exchange can be corresponded by 'paying attention to the process that constitutes the gift as a form of exchange by maintaining boundaries with other forms of exchange' (p.389), which can correspond with "ganqing" (sentiment) bonding and deepened relationship. Gift-giving is a social phenomenon which exists in all societies, but

in China gift exchange is regarded as 'custom and habit' (Gold et al., 2002) which are interrelated with the guanxi network cultivation and connection among different social structures (Yan, 1996, p. 21). In other words, guanxi is the basis of gift-giving behaviour (Gold et al., 2002) and mutual favour dependence (Lewis, 2000), because gift-giving acts as a medium to facilitate guanxi connections. According to Smart's (1993) observation on gift-giving behaviour in the case of Sino-Hong Kong JVs, he found that the guanxi relationship is constructed and strengthened through the gift exchange activity to establish and maintain capitalist investments in a socialist economic system (p. 398). More importantly, guanxi has an instrumental character (Hwang, 1987; Smart, 1993), and the usage of the gift-giving strategy not only improves the profitability of the investment, but it provides for a hedge against the risk of arbitrary bureaucratic interference (Smart, 1993).

Gift-giving activities are highly involved with guanxi. Smart & Smart (1991) describe gift-giving behaviour as mainly taking places within the 'second economy'⁴, they cited Oi's (1999) observation that the socialist political system 'suffer-from inherent structural flaws that force their members to engage in illegal actions to survive and pursue ordinary interest' (p. 220). It seems that gift-giving behaviour may be interpreted as bribery practices, but it certainly can reduce the obstacles that are inherent in the Chinese bureaucratic system through alternative ways to improve efficient 'service exchange' (Yan,

⁴ Smart and Smart (1991) state that "second economy" as "shadow economy" involves activities which are outside the official plan, often illegal – black market, bribery and corruption, petty trade and so on (p. 220).

1996) since the gift-giver has already made a good impression on the gift-receiver who not only regards this as payment for service but also as a social occasion for establishing good relations (p. 136). In other words, the art of guanxi may lie in such continued exchanges of favours between the two parties involved (Luo, 2000), and gifts as a conduit are normally used to cultivate guanxi (Brunner et al, 1989; Wong & Leung, 2001).

3.4 Guanxi and International Joint Ventures

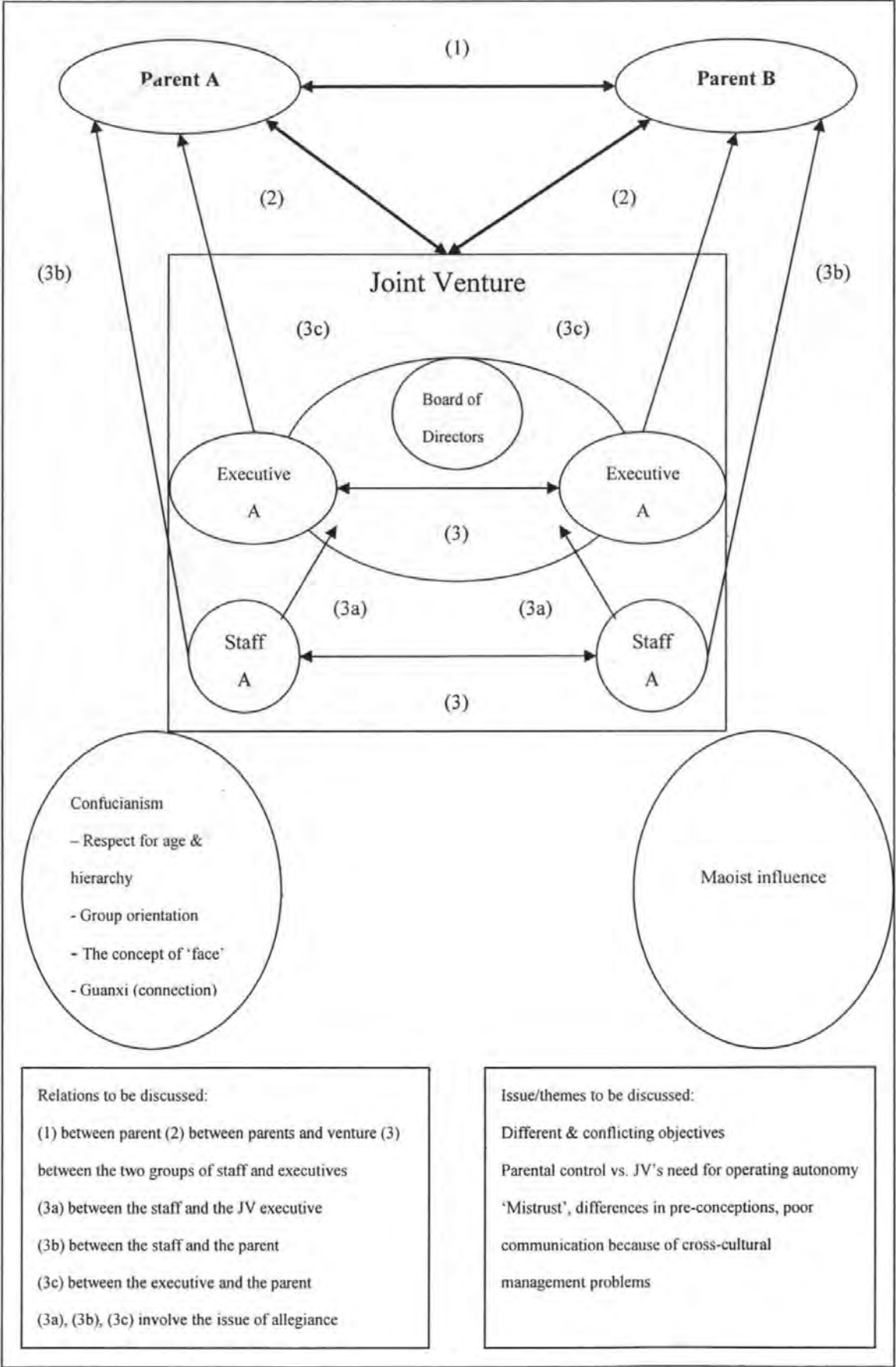
One way to show the importance of guanxi networks at a business level is to focus the different guanxi approaches in the IJV context. Since 1979, the Chinese government in its endeavour to facilitate economic reform has used JV as its main strategy to attract and absorb massive foreign direct investments from different countries. As shown in Chapter 2, the study of Sino-foreign JVs in the P.R.C. has become a popular topic in recent decades (Shenkar, 1990; Beamish, 1993; Beamish & Lee, 1995; Wong & Ellis, 2002; Fryxell, Dooley & Vryza, 2002; Dominique, 2004). Typically, JV involves both the complex inter-organisational networks and external Chinese human interactions relationship in Chinese society (Keow & Halbauer, 1999; Luo, 2000; Yau, et al., 2000). Typically, the guanxi practice has a substantial impact on the JV framework. According to Roehrig (1994),

When a foreign joint venture partner attempts to obtain new materials for production outside official administrative channels and must utilise the

strategy of bargaining with another enterprise for the necessary documentation to acquire goods, a personal relationship with someone in that enterprise must be established in order to close the deal (p. 92).

Because foreign partners are unfamiliar with local environments, such as political, economic, cultural and social aspects, they must build up close links with venture partners, and relevant relationships are essential when dealing with businesses in the host country. Specifically, IJVs in China are highly involved with socio-cultural values regarding the behaviour of human interactions (Wilpert & Scharpf, 1990). The requirements of guanxi are apparent, since it plays a special role in various business activities in China (Yeung & Tung, 1996), for example, (1) choosing the right business location; (2) choosing the right entry strategy; (3) competitive prices; (4) complementary nature of goals; (5) familiarity with Chinese negotiation style; (6) flexibility in business operations; (7) guanxi with Chinese business associates; (8) long term commitment to the China market; (9) management control; (10) product differentiation; and (11) quality. Figure 3.2, summarises the business activities of JVs in China showing that foreign partners can profitably depend on local partners' guanxi connections in the domestic business scene and result in good relations with influential persons (Luo, 1998).

Figure 3.2: Principal Relationships Prevalent within Organisations



Adapted from Sing Keow Hoon-Halbauer, 1999

Firms involved in the formation of a JV need to pay greater attention to dealing with human interactions, because the JV is a complex 'web of managerial relationships' (Halbauer & Keow, 1999). For example, in the cross-culture JV case, which is expected to reveal a significant function using guanxi networks (Wilpert & Scharpf, 1990; Luo, 2000; Luo & Yan, 2001), and create a better opportunity for firms to reach profitability (Wong and Ellis, 2002). Moreover, guanxi provides a defensive strategy for inter-organisational firms against opportunistic behaviour and, at different cooperation stages, guanxi does help venture firms to overcome the negative impact on firms' performance, such as when conflicts arise from different managerial and operational practices (Yan, 2000).

Several studies suggest that firms in China do not entirely rely on their capabilities or competencies to achieve business successes, but they need to utilise their existing relationships to develop extensive guanxi networks to create effective cooperation relationships with local partners to stay competitive in this environment (Shenkar, 1990; Pearson 1991; Luo, 1995). Because Chinese society is more ruled by people than law (Parnell, 2002), a tradition that goes back several thousand years (Kristof et al., 1995), guanxi is an important factor for firms to ensure the success of JVs. Hence, it is necessary for firms to take time to establish or cultivate their relationships on the basis of venture development though they might experience rough times in the initial cooperation stage. The gradual trust building process can ensure that the venture parties have more

confidence towards each other and produce a stable working relationship during the contractual period of time.

3.4.1 Guanxi as a Motive in Joint Ventures

In complex guanxi frameworks, Luo (1997) suggests that since different foreign businesses in China have different investment motives, firms need to establish different kind of guanxi relationships to serve the best interests between business partners (Vanhonacker, 2004). A JV is not merely an inter-organisational structure for firms but, rather, a direct source of gaining a competitive advantage in the Chinese market by building an extensive guanxi network to acquire the scarce resources (Luo, 1997). In this sense, the need for guanxi networks in JVs seems imminent because it leads venture firms to meet their expectations and connect with best chance of gaining the economic benefits (Luo, 2000). One of the important advantages for engaging in guanxi is to avoid uncertainty and to achieve transaction reductions (see Figure 3.3).

The cost reduction perspective probably is another main reason for building up a JV in China. Foreign firms believe that having a good guanxi relationship may provide both the risk reduction and competitiveness enhancement functions (Roehrig, 1994). As Tiessen & Linton (2000) explains the reason why foreign firms want to form a JV is because 'JVs enable partners to achieve economies of scale, reduce risk, shape their competitive environment, exchange complementary resources, engage in mutual learning and lower

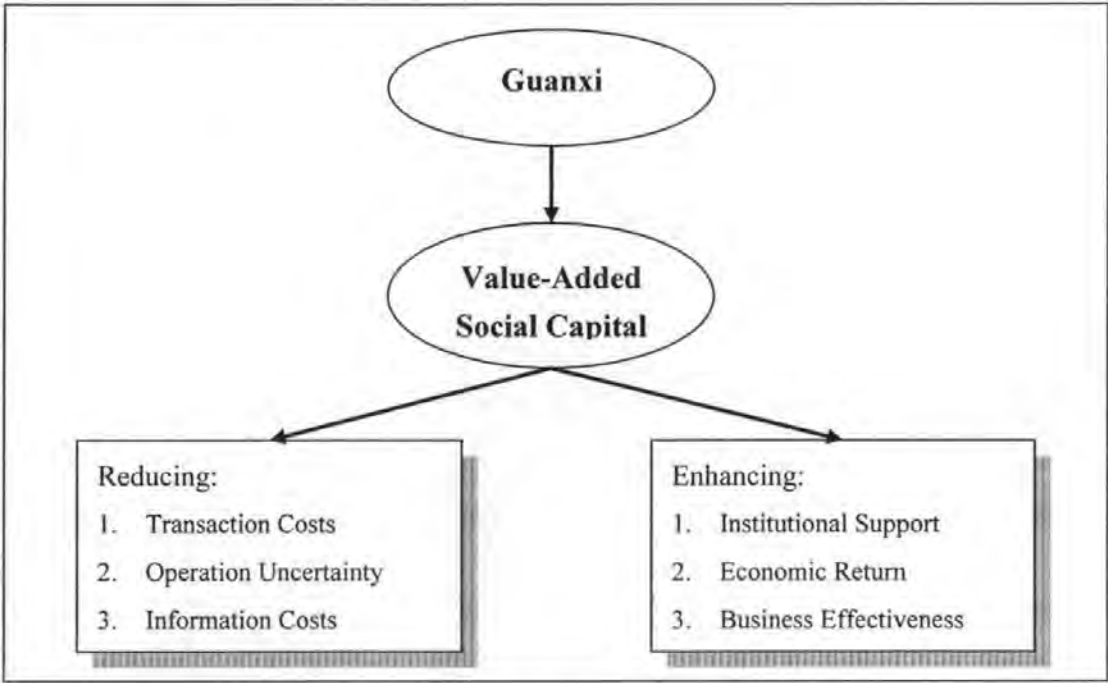
transaction costs' (p. 204). It clearly reveals that relationships between partners are central to every aspect of joint operations on a daily basis, particularly, in the Chinese business environment, where relationships serve multiple purposes for firms. Forming a JV was found to be an effective way for firms to lower the transaction costs by accessing venture partners' input resources (Hennart, 1991). In the Chinese environment, setting guanxi can have a significant effect to further transaction cost reduction, as Standifird & Marshall (2000) found that well-established guanxi networks between partners can restrain opportunistic behaviour and reduce environmental uncertainties through exchanging the clarity of information.

From the environmental and institutional uncertain perspective, there is another reason to set up a JV in the Chinese market. Given the weak Chinese institutional environment, guanxi serves well as a means of reducing unexpected costs and risks for foreign firms while engaging in cooperative activity in China. The Chinese government decided to open up its door for foreign investors and established various laws and regulations to attract further foreign direct investments to China. However, not all laws have been effectively implemented or enforced; more importantly, they can be interpreted differently in accordance with circumstances (Yau et al., 2000). Tang (2003) suggests that the environment of China is very much a rule of people (as opposed to rule of law) and thus its market economy is far from mature. Parnell (2002) notes that China is typified by the

'government of people', whereas the Western firm is typified by the 'government of law'. Luo (2000) has confirmed his findings of the importance of developing and maintaining good connections with government in China. He states that institutional uncertainties and ambiguous property rights necessitate good networking with various government agencies for most firms in China. It is apparent that the Chinese form of collectivism is network first, country second and culture third (Hui and Graen, 1997), which indicates that Chinese society does allow people to use guanxi as an instrumental tool to achieve their objectives. Thus, guanxi to foreign firms may provide a safety net function, since it is vital to some specific foreign partners who have a completely different cultural background (Luo, 2000).

With these two strategic relationship approaches, it is believed that guanxi plays an important mechanism to stabilise Sino-foreign JV organisations and it provides a great opportunity to access local market development for both parent firms. Lin (2001) concludes that the prevalence of guanxi under such circumstance would provide an effective strategy for individuals or groups to influence cost-benefit outcomes. The special role of guanxi in JVs enhances the trust function between two partners and secures the source of information and resources on a long run basis.

Figure 3.3: Economic Benefits of Guanxi



Adapted from Luo, 2000.

3.4.2 Cultural Factors

A number of researchers have pointed out that the cultural influence in cross-national JVs is significant, especially in the case of Sino-foreign JVs in China (Sing Keow, 1999; Luo, 2000; Yan, 2001; Wong & Ellis, 2002; Li et al., 2002). Cultural differences in the cross-national cooperation structure indicate that the effect of cultural diversity and distance may be significant for firms’ behaviour and performance (Li et al., 2002). Culture can therefore be considered as a significant factor in JV development in China. Many studies have supported this point, for instance, Barkema & Vermeulen (1997) argue Hofstede’s (1984) culture study on five dimensions (power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, Confucian dynamism) to

explain the cultural differences in IJVs context. They found that some dimensions of national culture are more disruptive than others in the IJV setting. As in the comparative study of Sino-Overseas JVs, Li et al. (2002) found that cultural diversity and distance have different degrees of effect on the JV performance, which have shown that foreign firms might possess different competitive advantages to compensate for the negative effects of cultural differences.

It has been reported by a number of studies that the JV was one of the most difficult organisations to manage (Beamish, 1988; Parke, 1993), because it encompasses a complex managerial relationship and human interaction (Luo & Yan, 2001). As mentioned in the previous sections, the Chinese cultural features strongly influence the Chinese daily activities (see p. 115), because they respect the elder and hierarchy system, with emphasis on 'face' and harmony. The importance of cultural issues of embeddedness in business has increased the level of human relationship complexity to be managed because of the national cultural differences in IJV formation. Yan & Luo (2001) suggest that culture influence is critical to IJV development, especially how it will affect the business cooperation atmosphere and commercial practices in operation. To be familiar with the partners' culture background may be essential because it will increase the chance for the JV to succeed. Hence, in the JV operations guanxi can be seen as 'social investment which

is enormously worthwhile because it not only facilitates the focal negotiation but also nourishes a cooperative culture for the forthcoming JV' (Yan & Luo, 2001).

In the formation of the JV, two parties are bound together because they rely on each other's valuable resources to strengthen their cooperative relationship, which may reduce the impact of uncertainty and threat of opportunism (Chen, 2001). With regards to the importance of cultural differences in Sino-Overseas JVs, the development of a good guanxi network can be very different and challenging from the Western point of view (Buttery & Wong, 1999). The Chinese venture partners prefer to deal with people they know and trust. This does not seem to be very different from doing business in the Western world. However Purchase & Kriz (2000) found that the Western network focuses on networks at the firm level, whereas Chinese business networks operate on two levels: firm and individual. From this point of view, Chen & Luo (1997) confirm that country of origin and investment mode does have an effect on the guanxi building and firm's performance.

Guanxi primarily relates to personal, not to corporate, relations, and exchanges that take place amongst members of the guanxi network are not solely commercial, but also social, involving the exchange of renqing (social or humanised obligation) and the giving of mianzi (face in the society), or social status. This feature often leads guanxi to be named 'social capital'. In contrast, networking in Western marketing and management literature is the term primarily associated with commercially based corporate-to-corporate relations'' (p. 3).

To gain an insight into the view of cultural differences in Sino-foreign JVs, it is necessary to pay attention to inter-organisational management to capture the complex concept of cultural diversity in relation to guanxi relationships. In the case of cross-culture cooperative management, without certain guanxi involvements venture parent firms may yield a serious misunderstanding and conflict, which will result in a negative effect on firms' performance (Hui & Graen, 1997). Pearce & Robinson (2000) and Yan & Luo (2001) express views on the importance of cultural differences in JVs practice in China. Not only do they emphasise that cultural difference may hinder a firm's cooperation relationship, but it may create difficulties for learning and knowledge transfer between partners. Therefore, the managers in a JV should have some degree of cultural awareness as well as a close guanxi relationship between employees in order to encounter the culture clashes which might jeopardise firms' objectives and partners' relationships on a long-term basis.

In a previous wide range of studies, which stressed the importance of culture factors in JVs from East Asians to Western countries, it was revealed that the culture variable has a significant impact on a firm's daily operations. (Tung, 1982; Yeung & Tung, 1996; Graham & Mintu-Wimsat, 1997; Salacuse, 1999; Faure, 2000). For instance, Wang & Leung (2001) identify different business approaches of the Western and Eastern world to explain the differences in network practices by adopting Wee's (1994) framework.

Furthermore, a similar situation of Sino-Overseas JVs illustrates the significance of cultural differences of guanxi networks in JV development. Undoubtedly, it is worth viewing whether venture partner's different cultural backgrounds will have different degrees of influence on guanxi usage and the formation of the JV. Therefore, it is important to explore whether significant cultural similarities will have an effect on Sino-foreign JV development in relation to the closeness of guanxi ties between partners (Yau et al., 2000, p. 23). In Table 3.1, it identifies the key differences of social value and business practices between Western and Chinese organisation. Guanxi networks, perhaps, are the most important part of the Chinese business culture context especially for foreign companies who are seeking to establish a presence there.

Table 3.1 Contrast between Western and Chinese Views

Western View	Chinese View
Social Value and Practices	
Fragmented	Disciplined and cohesive
Encourage different views	Instil discipline and order
Emphasize legality	Emphasise morality
Laws can be exploited	Laws to be enforced
Tolerance of failure	Intolerance of failure
Sense of sufficiency and invulnerability	Sense achievability
Individual rights and freedom	Societal values and interest
Self over society	Society over self
New culture	Very established culture
Flexible	Inflexible
Loose friendships	Everything thrives on guanxi
Rely on government for welfare	Rely on self/family assistance
Business Practices	
Mechanistic	More organic than mechanistic

Short payback period and high return on investment	Long-term payback and investment approach
Major gift-giving viewed as illegal	Gift-giving part of building guanxi
More focus on profits	More focus on market shares
Public relations more of a chore	Guanxi provides competitive advantages

Adapted from Wee (1994).

3.4.3 Guanxi in Sino-Western Joint Ventures

Fang & Kriz (2000) compare business relationships in Chinese communities, which are interpersonal with the inter-organisational relationships of Western business culture. Guanxi certainly can contribute highly successful cooperative alliances in China (Pearce & Robinson, 2000, p. 31) and can be seen as a dynamic solution when encountering the different types of problems in business operations. Since guanxi is related to a cultural framework, if partners have a large cultural distance in a cooperative structure, guanxi may easily increase the managerial or operational conflicts because of communication barriers. As noted earlier guanxi can be widely translated as ‘connection’, ‘social networking’, or ‘special interpersonal relationship’, but Chinese guanxi also carries the special meaning of power, social status and resource transmission (Hackely & Dong, 2001). In this sense, many foreign firms have found it is very hard to work with Chinese partners after establishing a foothold in the Chinese market. Without the help of networks they probably have to face more challenges; such as lengthy negotiations, bureaucratic delays and institutional abuse (Yi & Ellis, 2000, p. 25).

Western foreign partners in JVs may lack guanxi connections. According to the Roehrig's (1994) study in foreign JVs in contemporary China, he found that European partners have difficulty beginning the joint production process in China, because 'no one at JV had personal contact who could make the appropriate arrangements with the necessary personnel' (p. 92). For example, when foreign firms in China are involved in legal disputes, even if firms try to resolve conflicts in court, usually they will not succeed because courts 'tend to support the Chinese side' (Parnell, 2002, p. 96). Therefore, guanxi can provide alternative solutions for foreign firms.

This is not to suggest that Western partners have no chance of developing a close relationship with their Chinese partners despite different cultural backgrounds. This just indicates that venture partners with completely different backgrounds should spend more time and effort in learning local business culture through the cooperation mode to seek out relevant guanxi networks. For example, according to Pan & Tse's (1996) and Wei et al. (2005) studies, non-Asian investing firms may be more inclined to form an alliance with overseas Chinese firms when entering China, based upon the need of the Asian firm to bridge the cultural gap between the investing firm and the Chinese market.

3.4.4 Guanxi in Sino-Overseas Chinese Joint Ventures

Unlike Western foreign firms, overseas Chinese entrepreneurs from Taiwan, Hong Kong, and Southeast Asia have enjoyed and operated comfortably in guanxi networks and laid the foundations for stronger links among businesses across national borders (Luo, 2000). With the ethnocentric influence, Kipnis (2002) agrees that gaining emotion is the most crucial factor in the practice of guanxi, which clearly has differentiated the Western relationship network and the Chinese guanxi relationship, because variations in the practice of guanxi are endless. Guanxi links to feelings and obligations, which creates a significant relationship advantage and enhances the Sino-Overseas Chinese JV's performance. Boisot & Child (1988) have studied the transaction governance structures in East Asian regions and concluded that these countries have a greater tendency to emphasise interpersonal relationships. Hutchings and Weir (2004) suggest that although people in China have had a different experience of business than people in Chinese diaspora, the practice of business networking is profoundly emphasised (p. 2). Therefore, business relationships in the East Asia region are very much interpersonal in orientation which maintain and develop relationships with other firms. Since overseas Chinese have a shared culture, linguistics, race, and religion, they are more likely to depend on such resources to exploit their strengths using ties to obtain their resources (Hogan, 2001). As Li (2000) clearly states in Chinese networks study in relation to the guanxi concept:

Chinese networks refer to the cultural endowment of Chinese to develop particularistic relations and to the instrumental value these relationships provide to Chinese entrepreneurs and capitalists in expanding their business activities (Li, 2000, p. 266).

Luo (2000) states that 'it is important that partners speak a common language, have similar background knowledge' (Luo, 2000). Further suggestions made by Luo (1997) also observes that 'guanxi' is critical to business transactions and negotiations in China and in other Chinese communities in East Asia since the element of guanxi is constituted by trust foundation (Yi & Ellis, 2000). Because guanxi brings people together, it produces the specific bonding between these people in the guanxi ring (Hui & Graen, 1997) and is not necessarily equally reciprocal during the exchange relationship process (Fock & Woo, 1998). For overseas Chinese enterprises, since they shared the similar cultural features with Mainland Chinese, it is easy for them to establish relationship of trust, obligation and reciprocity in order to obtain scarce resources and important information while conducting daily operations (Wong & Ellis, 2002, p. 441).

3.5 Guanxi and Partner Selection

It has been suggested that guanxi is a useful way to provide an alternative and powerful method of identifying compatible partners in the formation of a JV (Wong & Ellis, 2002). Compatible partners in a JV provide a greater chance for a successful business

collaboration by finding a balance point of effective coordination (see Chapter 2). A significant point made by Wong & Ellis (2002) during the discussion of the JV partner selection process is based on the importance of guanxi. They argue 'in the context of JV, a potential investor may be expected to rely on existing ties with others when those ties expedite the diffusion of market information across international boundaries' (p. 271). Similarly, in a study of Sino-Singapore alliance formation study, Tan and Aken (1999) found that Singaporean small and medium-size enterprises were more likely to use existing Chinese networks for partner selection and alliance formation to overcome the distrust of behaviour. Leung & Yeung (1995) also conclude that the guanxi relationship is an important factor for forming the strategic alliance. In contrast to the traditional partner selection process, firms rely on a standard way to choose appropriate partners based on three areas: antecedents, outcomes and specific management issues, because they are lacking important guanxi networks in Chinese communities (Wong & Ellis, 2002). Therefore, firms have insufficient information when choosing a potential venture partner in China, which may have significant impact on a JV's efficiency and effectiveness.

Guanxi provides strong personal power, which can provide 'direct and indirect access to key resources, skills and knowledge controlled by others' (Wilkinson & Yeoh, 2004, p.1). Clearly, guanxi can be seen as a reliable way to choose a best-fit venture partner. One important JV study from Wong & Ellis (2002) pinpoints partner selection in a JV as being

largely dependent upon social network ties with others in order to span its social boundaries and provide useful information to identify suitable venture partners. They have analysed both strong ties and weak ties of firms looking for the best candidate for a JV. The strengths and weaknesses of both kinds of ties are analysed. The core of the concept of JV development consistently emphasises the importance of pooling partners' resources and information to gain the chance for business success. The relationships between venture partners will significantly affect the JV's valuable assets exchange (tangible or intangible), sharing, or co-development and may result in a more enduring commitment between the partners (Harrigan, 1986). Thus, the rigorous partner selection criteria are strongly associated with guanxi networks, because it provides a 'pre-test' kind of partner screening process to select compatible cooperative partners to increase the synergetic effect during the cooperation.

The purpose of guanxi construction for partners stresses the concept of information searching and exchanging through a form of exploration and exploitation relationships under the consideration of an uncertain environment. As a result, in the JV's partner selection process the guanxi relationship can be said to be the best and most effective way to increase the chance of finding a suitable partner owing to its flexibility and low cost. Guanxi is closely related to partner selection, whereby guanxi relationships can be

generated through two perspectives, the pre-existing relationship and special and rare guanxi networks.

3.5.1 Importance of Pre-Existing Guanxi

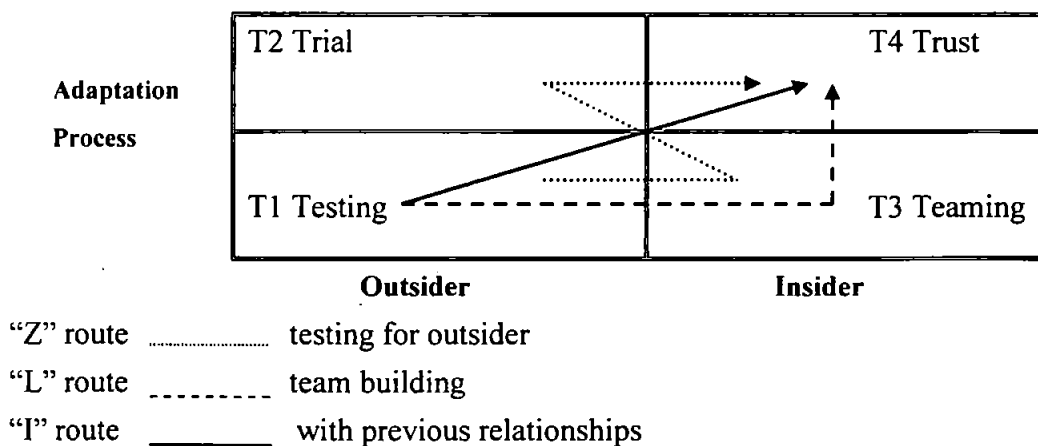
Guanxi is often established with prior relationships (Luo, 2000; Chen, 2001), which indicates the relationship's transferable characteristic⁵ (Yan & Luo, 2001; Gold, Guthrie and Wank, 2002), but is not substitutable⁶. The pre-existing relationship enables parties to pave the way to engage the economic benefits and opportunities based on the nature of reciprocal relationships (Tsang, 1998; Kiong & Kee, 1998). The importance of pre-existing guanxi is emphasised by Podolny (1994) and Beckman et al. (2004), who argue that in an uncertainty environment the best strategy is to interact with previous partners, since they may share some similarities together with certain level of trust relationships. The aim of JV is to achieve the largest benefits by sharing the risks and resources with partners; therefore, it is sensible for venture partners to reinforce previously established relationships to look for a trustworthy partner in able to ensure that the JV can operate smoothly and reduce possible opportunistic behaviour.

⁵ As noted earlier in the guanxi definition, if person A would like to connect relationship with person C, person A will find person B as intermediary to introduce person A to person C in order to secure trustworthy relationship (p. 3).

⁶ Since trust is essential for guanxi practices; therefore, strong guanxi ties, such as family and kinship ties are difficult to replace, since trust building takes substantial time and effort.

With regard to the importance of pre-existing guanxi in the business environment, Yan & Luo (2001) suggest that pre-existing cooperation relationships with other firms probably are a good way to select its potential JV partner base upon previous co-working experience and knowledge. For instance, if venture partners do have previous cooperative experiences, they would be more likely to form a JV based on the previous working relationship and the JV therefore can be more 'stable' and 'strong' when in an environmental of uncertainty (Yan, 1998; Luo & Yan, 2001). Importantly, the pre-existing relationship is a significant process for building up stronger, more trustworthy relationships in JVs (see Figure 3.3), because partners depend on the trust to enhance their subsequent relationships in terms of the formal control and management structure (Yan and Luo, 2001, p. 260). Yan & Luo (2001) point out that the pre-venture relationship can provide an opportunity for partners to reach consensus before entering into a JV contract agreement by putting together the best interests of each other without considering disloyal opportunism behaviour.

Figure 3.4: Closeness of Guanxi Networks



Adapted from Wong and Tam, 2000

3.5.2 Special or Rare Guanxi

Since the value of the guanxi relationship depends on the closeness of the ties in each unique individual situation, a rare and special guanxi may be established and it would provide the most important information and links for people who possess such relationships. The closeness of a relationship can be indicated by the frequency of the two sides' interactions, because people who have interacted frequently in the past tend to expect and seek frequent interactions in the future (Lin, 2001). It has been pointed out that if one possesses rare guanxi, it will become his or her priceless assets because such special relationships are difficult to imitate (Luo, 2000). In this sense, rare guanxi-building will account for trustworthy relationships between parties, because rare guanxi indicates a long-time interaction for the future exchange relations (Bian & Ang, 1997). The importance of rare relations in a JV is subject to trust power (Bian & Ang, 1997; p.40), because in China the higher the trust input, the better the guanxi outcome. For instance, a one-year relationship hardly compares to a ten-year one; therefore, an 'old friend' is different from just a normal friend.

Based on the previous studies, guanxi can be classified into different circles or types. Kiong & Kee (1998) classify six main guanxi base groups, and each of these relationships has varying significance over time, such as: 1) locality/dialect; 2) fictive kinship; 3) kinship; 4) work place; 5) trade associations/ social clubs; 6) friendship. In a similar

manner, Chen (2001) identifies guanxi connections from three main different groups to distinguish the closeness of the guanxi ties: Shenjen (stranger), Jiaren (family member), Shouren (close friends). Fei (1992) even simplified the guanxi relationships into two categories: zijiren (insider) and wairen (outsider) based on the frequent interactions between people. In order to explain the significance of guanxi and partner selection, it is an inevitable trend to adopt the rare and special guanxi to find a business partner through an individual special guanxi or family and close friends or associations to identify a suitable cooperation partner.

The valuable and rare guanxi networks play a significant role for venture firms in the cooperation because it may reduce transaction costs (Gulati, 1995) and therefore enable firms to earn superior profits in China (Tsang, 1998). In the case of Sino-foreign JVs, the closeness of guanxi is stressed, because this special type of relationship allows firms to enjoy more benefits and support, with less conflict during the cooperation period. Moreover, a special or rare relationship seems more friendship-related than those normal social guanxi relationships. Guanxi is being practised in daily Chinese social interactions. Hwang (1987) and Luo (2000) report that Chinese people adopt different rules to treat others according to those types of relationships. Special relationships can be formed by depending on various obligations for the relational partners.

3.6 Overemphasizing the Guanxi in Joint Ventures

Owing to differences between partners' agenda, strategy and cultures in JVs, guanxi might create negative consequences for a JV's performance and cause the failure of the JV (Tse, Pan & Au, 1997; Kogut & Singh, 1988; Yan & Luo, 2001). Previous studies have recognised that guanxi has been closely related to partners' cultural backgrounds and that the JV stability is far more complex than had been thought (Yan & Zeng, 1999). For instance, Park & Ungson (1997) detect a crucial effect of inter-partner nationality on JV termination, which points out that if there had been a greater the cultural distance, it would be less likely that the venture can be dissolved.

In fact, sometimes close ethnic relationships do fail in a JV development in China or result in a negative impact on JV performance. A number of studies have taken a closer look at the negative side of the quanxi networks within JV organisations, i.e. the undesirable performance and outcomes. According to the findings from Wilson & Brennan (2000) in a comparative analysis of the interactions between networks and Chinese management, JVs between Western and Chinese firms continue to experience high failure rates (Makino & Beamish, 1998), because guanxi is informal and private relationships need to be carefully maintained and cultivated by devoting huge amount of time and effort. Second, during the guanxi building and maintaining process businessman may have to go through lavish

banquets or gift and favour exchange techniques. However, these seem to be connected to corruption and bribery practice owing to its informal and private settings (Yang, 1994).

Guanxi may incur both positive and negative effects on individual or groups (Tsang, 1998). From the instrumental purpose, the usage of guanxi surely improves a JV's efficiency and effectiveness to consolidate the structure of the JV. On the other hand, guanxi actors may have to bear more obligations or indebtedness to repay their 'favour' back in order to maintain the momentum of reciprocity; otherwise, it may create distrust between guanxi actors and the negative outcomes for JVs attributable largely to misuse of the quanxi and lack of guanxi knowledge.

3.6.1 Potential Risks and Threats of Guanxi

Although the importance of quanxi relationship between Chinese and Western firms has attracted considerable attention in the JV literature, there are only a few scholars who have attempted to explore or explain the potential risks and threats of guanxi in JV development. Fock & Woo (1998) give evidence that shows that guanxi can become a competitive advantage to foreign firms during the negotiating process within the complex human network in China, but they still fail to explain the threats and risks. Since China is in its economic transitional process, effective guanxi is required to facilitate the business process. However, over emphasising guanxi connections would cause the reverse effect.

Firstly, the growing amount of literature on the subject argues that the overuse of guanxi will re-emphasise the concept of nepotism or favouritism in Chinese social and business development. Tsang (1998) suggests that guanxi can become a threat if the business partners immediately lose their position or power. The non-substitutable nature of important guanxi completely relies on the guanxi for a long-term business relationship and may be seen as dangerous behaviour (Wong & Leung, 2001). Secondly, guanxi is a dyadic relationship which may offer some kind of competitive advantage; however, such relationship-building does take substantial time, money and effort to construct guanxi base (Luo, 1998; 2000). In addition, although guanxi does provide local know-how knowledge and expertise for business development, it cannot guarantee a successful business transactions. Fourth, the reciprocal concept of guanxi locks parties into the social obligations to protect reputation and a trustworthy relationship. Therefore, reasonable favours or 'face' must be returned in unanticipated time (Buttery & Leung, 1998). Regarding such guanxi problems, Chen & Chen (2004) point out that the repayment of favours in undefined time is expected because parties do not treat such closeness of relationship as valuable assets, but they are willing to continue the relationship in the future via a binding obligation effect. If partners have violated such social norms and responsibilities, their reputation is severely damaged which can have a substantial effect from which it is extremely difficult to recover. Particularly, saying-face in Chinese society

is one of most important elements for guanxi interactions to avoid embarrassment and conflicts.

At the JV level, there are two major drawbacks of guanxi if too much emphasis is placed on guanxi. First, some local Chinese parent firms may boast that their extensive guanxi networks can get things done quickly and effectively. Guanxi is not a panacea for business success. Second, over-dependence on guanxi to effect cooperative management may affect the firm's capabilities for achieving its strategic objectives, because emotional restraint and social obligations from guanxi may influence JV outcomes and performance.

3.7 Summary

Guanxi (interpersonal relationship) can be interpreted as an interpersonal relationship, and it is also heavily embedded in personal emotions and feelings, which require constantly cultivated reciprocal relationships on a long-term basis. Guanxi is the most essential element in the Chinese society. The use of guanxi is frequently associated with relationship-building elements, which include 'face', 'favour', and 'gift-giving' for creating trust and a strong bond of personal or organisational connections. These guanxi functions play important roles in forming or increasing the level of relationship and maintain the long-term trustworthiness.

Guanxi is one of the most important vehicles for inter-organisational formation, which reflects the complexities of human relationships. It helps firms to create a sustained competitive advantage by emphasising interrelationships, which provide the advantages for foreign firms to find a solution when they are dealing with complex human networks in China, typically, in the JV context. Guthrie (1998) admits that guanxi is important to IJV relationships owing to its intrinsic complicated relationships between partners. Given the significance of JV formation focus on the cooperative relationship between venture companies, guanxi can significantly influence business operations and allow venture parent firms to facilitate their learning process to minimise managerial conflicts (Jolly, 2004).

Guanxi may bring a negative effect for IJVs, because it may take a lot of time, money and effort for companies to establish or secure important relationships with business partners. But, it still cannot guarantee business success in the future. And, guanxi usually has informal and private settings; therefore, it seems to be easily connected to corruption and bribery practices. As a result, over-dependence on guanxi may affect JV organisations' determination for achieving their strategic goals.

Despite the disadvantages of guanxi, the strength of guanxi in the Chinese business environment can help firms easily to utilize their partner's expertises (e.g., knowledge and resources) through the JV formation. In other words, without help from guanxi, the JV may struggle because of poor performance. In particular, firms may find it difficult to sustain their normal businesses practices because guanxi acts as an important cooperation bridging tool to integrate venture firms when firms are dealing with businesses in an uncertain environment.

Chapter IV Social Networks & the Formation of Joint Ventures

4.1 Introduction

People rely on different kinds of relationships within social environments in order to survive (Lovaglia, 1997). This social network system exists everywhere, with similar interpretations, despite varying cultural environments (Gargiulo & Benassi, 2000; Kristiansen, 2004; Michailova & Worm, 2003). Interest in the concept of social networks has gained in popularity throughout the social sciences. Specifically, the investigation of cross-cultural organisational practices in the context of social networks has revealed many interesting issues, including strategic network motives and accessibility (Luo, 1998), resource-based dependency (Pfeffer & Nowak, 1976), transaction cost considerations (Ring and Van de Van, 1994), and cross-cultural management (Oudenhoven & Zee, 2002). These suggest that the social networks systems affect international inter-organisational performance and facilitate for collaborative efficiency based on extensive connections.

Brass (1992) stresses that social networks can be distinguished in terms of the direction (symmetry) and strength (intensity) available to provide or receive resources and information. Consequently, social networks reveal the degree of power within organisations. He concludes that networks can provide a 'complementary' function rather than serving as a form of competition in economic activities. Firms in reciprocal relationships can maintain their competitiveness via networking (Perlmutter & Heenan,

1986; Ohmae, 1989; Lewis, 1990; Badaracco, 1991; Byrne, Brandt and Port, 1993; Rangan & Yoshino, 1995). This is possibly because networking is likely to prevent potential competitors from entering into similar industries or markets (Reagan & McEvily, 2003). In this way, collaboration provides a solid platform in which to address the usefulness of social networks in the cooperative structure between firms.

The strength of networks can influence the inter-organisational structure, as in the case of JVs. Gulati (1995) refers to social networks which entail direct and indirect ties which are embedded in most cooperative organisations.¹ These network ties provide information and facilitate learning in order to increase firm's competitiveness in the context of JV formation. In addition, both networks and organisational relationships simultaneously facilitate the degree of interdependence (Woolcock, 1998) regarding resources, capital, and information, thereby positively influencing a firm's performance (Geletkanycz & Hambrick, 1997; Gargiulo & Benassi, 1999; Kristiansen, 2004). Powell (1990) suggests that certain markets and organisations are more dependent on relationships, mutual interests, and reputation than others. Firms in the JV rely on their venture partner's capabilities to attain strategic goals.

¹ Burt (1992) explains that building networks with large numbers of indirect ties may be an effective way for participants to enjoy the benefits of network size without paying the costs of network maintenance associated with direct ties. Ahuja (2000), however, emphasises that direct ties can provide the benefits of resource sharing, allowing firms to combine knowledge, skills, and physical assets (p. 427).

In order to extract the importance of social networks in the JV context, this chapter will take the following approach. First, defining the social network can be seen as a necessary step towards examining its special role in social economic activities, because it serves as an 'invisible hand' in the problem-solving process (Luo, 1998). Second, there is a need for firms to build a reciprocal relationship to obtain scarce resources, in the JV framework of collaborative network strategy that enables 'people to act collectively' based on interconnected working relationships (Burt, 2000), and to improve the firm's performance (Ahuja, 2000). Third, while it is important to explore networks in the inter-organisational structure, it is also valuable to examine the benefits of 'social capital' (Woolcock, 2000) to distinguish its strengths and weaknesses in the economic environment. Finally, because of the importance of networks in this study, the Western social networks and Chinese guanxi relationships will be compared and contrasted in the context of the Sino-foreign JV and the strategy behind it.

4.2 Social Network Theory

There is a growing body of research on social network theory. Researchers from different theoretical disciplines have applied the concept of social networks in a variety of ways, especially in the areas of social relations or human interaction and behaviour (Wolfe, 1978, Granovetter, 1995, Fernandez, Castilla & Moore, 2000). Walker et al. (1977) define social

networks as 'the set of personal contacts through which people maintain their social identity and receive emotional support, material aid and services, information and new social contacts' (p. 35). This relates to the notion that networks contain a different proportion of actors with various attributes who have the opportunity to obtain or gather information (Goerzen and Beamish, 2005).

Social networks are relationships whose instrumental purpose is to allow individuals or groups to maximise their own benefits. Business networks play an important role in the success of a business by providing access to scarce resources in an informal but trustworthy way that increases the firm's strengths. Social networks can be implemented in many areas, including political, social, cultural, and economic environments (Bian, 1997; Gulati, 1998). Social researchers are interested in ascertaining the scope of strategic networks and their impact on organisational outcomes.

Sparrowe et al. (2001) note that networks revolve around participant's attitudes and behaviours, because networks are intrinsically involved in the construction of social relations and human interactions (Fernandez, Castilla and Moore, 2000). Burt (2000) suggests that networks largely result from such external factors as the environment and circumstances, and allow access to specific bodies of information provided by selected

people, while excluding incompatible relations. In Blackburn's (2005) study *The Hidden Power of Social Networks*, he specifically stresses that quality relationships between individuals, work groups, or organizations can contribute valuable assets to organisational performance and development. In the same vein, Bernard & Killworth (1990) illustrate through their empirical data approximately 1,500 informal ties in North America that demonstrate how people interact with each other in order to achieve their objectives in the process of pursuing daily activities. Sparrowe et al. (2001) studied 190 employees in 38 work groups and found both positive and negative relationships correlated to individual and group performance, which demonstrated that each network is associated with instrumental outcomes.

The instrumental purpose of social relationships or ties has been clearly shown in competitive strategies (Jensen, 2003) and organisational structures (Uzzi, 1997). Burt (1997) explains that, because of the imperfect market which makes people aware of the importance of their roles in the network structure, 'certain people are connected to certain others, trusting certain others, obligated to support certain others, depend on exchange with certain others' (p. 2). Accordingly, Human & Provan (2000) recommend that firms should deal with multilateral networks instead of seeking dyadic relationships, because it will be advantageous for firms to build up networks among members in complex cooperative

organisational structures. Burt (1997) tries to use the individual's position to demonstrate the significance of human capital for network ties in order to gather important information, create control benefits in organisations, and allow organisations to deal with unexpected situations. These studies clearly show that organisational activities have been closely related to networks, because the networks facilitate interaction and provide quick and informal access to important resources in order to sustain daily operations.

Social networking is an effective strategy and provides positive benefits (Burt, 1997). Powell (1990) suggests that, most importantly, networks offer information sharing, which creates reciprocity. Although networks bring people together regardless of whether they are compatible within the organisations (Burt, 2000), they provide the benefit of a large and diverse system for frequent contacts, increased access to information, and improved resource efficiency.

4.3 The Strength of Network Ties

A number of studies have identified the positive implications of network ties for social actors (Rindfleisch & Moorman, 2001) such as the job-seeking process (Granovetter, 1973), increasing cooperation performance (Sparrowe et al., 2001), facilitation of learning and the process of knowledge transfer (Levin et al., 2002), reduction of risk and

uncertainty (Burt, 1983), and assistance with the partner selection process (Beckman et al., 2004). Social ties can be generated from various resources by network members. These ties can both lift the communication barrier between groups or individuals and, more importantly, influence actors' performance as a result of sharing critical resources (Portes, 1998). As a result of informational advantages associated with a particular firm or an individual's frequent contacts with other members (Gulati et al., 2000), members are more likely to develop strong trust in a long-term reciprocal arrangement (Hakansson & Snehota, 1995; Andersson & Gorsgren, 2002).

A 'social network' usually refers to different sets of social relationships (kinship, friendship, or other relationship ties) within society (Wellman, 1992). In the business context, a strategic network appears to be an important source of valuable information. For example, Granovetter (1985) suggests that the embeddedness of social networks in economic organizations can reduce uncertainty through the ability to disseminate crucial information. Although this type of weak tie is low intensity by nature, it emphasizes the connection with other groups in the pursuit of useful resources. On the other hand, Granovetter (1973) also contends that a strong tie in social networks provides network actors with non-redundant information. Jack et al. (2004) locate the flexibility of network functioning in the flexibility of strong ties (Burt, 1992) and weak ties (Granovetter, 1973)

to assert different degrees of influence on organisational operations and performance. Consequently, research on the strength of network ties needs to focus on the implication of both strong and weak ties, because they are essential elements in the social network structure (Hammond & Glenn, 2004; Phillipson, Allan and Morgan, 2004).

4.3.1 Strong Ties

Granovetter (1985) describes strong ties as tending to have more closed links and being formed through similar attitudes, values, and concepts that help social actors access sources of information. Strong ties are more intimate and their relationships are more than instrumental, because they may share common backgrounds, experiences, concepts, or similar resources. Jack et al. (2004, p. 108) examine several different types of strong ties in the entrepreneurial context. They found that strong ties come from three sources: family, business contacts and suppliers, competitors and customers, depending upon different network functions. In addition, Bian (1997) suggests that the strong tie is an essential tool for information seeking to gain an advantage from economic activities. He has studied the strong network ties of 100 job seekers in China and found they used strong social network ties to bolster their chance for employment in the uncertain labour market. The importance and benefits of strong ties in the social structure can be explained by their cheap, reliable, and trustworthy characteristics (Granovetter, 1985, p. 490).

In other words, the strong tie supports the importance of developing competency at the individual and organisational level. For instance, the strong tie allows individuals or groups to obtain appropriate social control and build a reputation and social capital by establishing a sense of trust and social norms (Coleman, 1988). This makes logical sense, because the greater the degree of closeness within the relationships, the greater will be the degree of mutual understanding and the prospects of achieving a consensus. For instance, Gilsing & Nooteboom (2004) have looked at biotechnology and discovered the knowledge transfer process between firms was more likely to occur in cases of strong ties based on trustworthy relationships that lead to learning and innovation resource exchanges. Andersson & Forsgren (2002) extend this view by suggesting that social networks be treated as instrumental tools for knowledge development in Multinational Corporations. In fact, Hansen (1999) confirms that strong ties provide a smooth transfer for complex knowledge across departmental boundaries within the organisation.

4.3.2 Weak Ties

In contrast to strong ties, weak ties tend to involve fewer contacts, and this weak bonding with individuals leads to access to different resources. Granovetter (1973) found that the benefit of weak ties is their ability to provide more and newer information to help people find better jobs, because the form of weak network ties provides the lesser degree of

redundancy. The main function of weak ties is information sourcing and gathering. For instance, Brass found that weak ties can provide channels to unrestricted and less dense network groups. He suggests that 'weak ties are more likely to be bridges, providing access to information and resources beyond a person's immediate social circle' (1992, p. 306). Levin et al. (2002) suggest that, if one took into account the individual's competence and benevolence-based trust, one could uncover the hidden benefits of weak ties, because a weak tie is that it provides access to the most useful knowledge and information. At the organisational level, Wong & Ellis (2002) illustrate the ability of weak ties to gather information for potential venture partners during the initial partner selection process. Therefore, the weak tie can be regarded as a 'bridge' in the search for a wider range of non-redundant information from other networks (Davern, 1999). In Ruef's (2002) recent studies of the relationships between strong and weak ties in the organisational structure, he suggests that weak ties are less concerned about 'social conformity', thereby allowing social actors to select their information more freely. This can offset the disadvantage of limited investments and time.

However, there is a downside to weak ties, because the information shared via them is less reliable, and the redundancy of the information may increase as a result (Brass, 1992).

Although weak ties are relevant to information exchange activity among individual

network actors to access valuable information, strong ties favour close relationships with frequent contacts. Both strong and weak ties provide distinctive benefits for individuals and groups wishing to access resources and information, and the two forms of tie can complement each other.

4.4 Social Networks as a Form of Social Capital

Social capital is one the central issue of social networks, especially since it can be seen as a form of credit for individuals or groups. Smart (1993) cited Bourdieu's definition of social capital 'as the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and reconnection . . . a "credential" which entitles them to credit, in the various senses of the word' (Bourdieu, 1986, p. 249).

Coleman (1988) views the social capital concept as a personal credit. He claimed that the individual's interactions reveal the strength and value of personal qualities, such as intelligence and work experience, which serve as resources for collective and individual action (p. 96). Lin (2001) argues that 'social capital is best understood by examining the mechanisms and processes by which embedded resources in social networks are captured as investment' (p. 3). Social capital is the sum of social networks (Bourdieu, 1986; Adler

and Kwon, 2002), resides in network systems (Woolcock 2000), and permits network actors to access social and human resources (Seibert, Kraimer, and Liden, 2001). This supports Burt's (1992) concept that, with social capital, network actors deliberately select or manipulate their relationships in order to influence the results or gain in terms of performance or rewards (Borgatti & Foster, 2003).

Essentially, two types of social network structures are usually the sources to generate the social capital: horizontal and hierarchical networks. Warner (2001) distinguishes between these two different network structures. He explains that 'horizontal structure of networks involve more lateral ties between individuals within the social community and help produce more egalitarian and robust democratic structure, while hierarchical social capital produces patron client relations which can stifle development' (2001, p. 188).

Clearly, horizontal networks are involved in a wide range of relationship interactions. This coincides with Burt's (1992, 2000) point of view, which suggests that social capital can be formed and shared by the parties who participate in these relationships. Exclusive ownership rights are more likely to be formed to provide a wide range of support for network members in such cases (Wellman, 1992).

Social capital may be seen as other forms of capital (Alder & Kwon, 2002), but it is difficult to measure because of the different motives of the various network actors. According to Alder & Kwon's (2002) observation on social network relationships, social capital. First, they argue that social capital, like other forms of capital, demands considerable investments, and therefore can be treated as a long-term asset that generates benefits from its extensive network accessibility. Second, social capital has a strong instrumental intention, which may be employed for different purposes with positive outcomes, such as for risk reduction or information exchange. Third, social capital may complement other forms of capital to increase overall efficiency. For instance, in the organizational context, firms need to invest in human capital in order to facilitate daily operations and management, in addition to investing in business opportunities. Finally, unlike financial capital, social capital requires mutual commitment to maintaining good contacts in order to overcome unpredictable problems in the future. As mentioned earlier, social capital may be treated as a long-term asset. However, it needs constantly to maintain and cultivate its relationships to yield potential benefits for network actors. In other words, social capital may be seen as 'aggregated assets', which only benefit insiders who have strong network bonding.

Knowing social capital is embedded within the various levels of society, it encourages individuals or groups to maximize their social capital benefits through opportunity, motivation and ability, and allows them to use different social contacts in order to access valuable information and reduce the need for monitoring (Alder & Kwon, 2002, p. 29). Putnam (1993) shows that social capital comprises different sets of social networks which affect the productivity of the community and facilitate cooperation and coordination for mutual benefit. These functions of social capital are largely supported by Bat's (2000) study on the entrepreneurial networks in a transition economy. He identifies three dimensions of the individual's social capital that affect JV performance: 1) structural embeddedness refers to aggregate the overall networks from their JV partners; 2) relational embeddedness in economic perspective means that actions are affected by the quality of the actors' personal relationships; 3) resource embeddedness indicates contact's resource characteristics.

The concepts discussed here suggest that, in order to enhance relationships and facilitate cooperation within a group, bridging, binding, and linking the social networks are essential. As Coleman states, social capital 'is defined by its function, it is not a single entity, but a variety of different entities having characteristics in common: they all consist of some

aspect of a social structure and they facilitate certain actions of individuals who are within the structure' (1990, p. 302).

4.5 Social Networks in Inter-Organisational Structure

The nature of network development in organizations or enterprises can be crucial, particularly when firms work with partners to increase efficiency and effectiveness which lead to long-term profitability and achievement of objectives (Zeng & Chen, 2003). Borgatti & Foster (2003) note that networks are already embedded in organizations in terms of economic and social relations. A relationship between firms constitutes a business network, which can offer the firms benefits providing access to crucial resources from the markets (Chetty & Holm, 2000). In the inter-organisational cooperation setting, networks provide different benefits for economic activities, for instance, information-gathering and opportunity seeking activities, resources acquisition, and assistance with decision making (Jack, Dodd and Anderson, 2004, p. 107). If organizations can be supported by effective sets of relationships, they may be able to absorb more knowledge, skills, and physical assets in order to attain their objectives and goals.

The networking system offers a coordinated mechanism for firms to access information and makes available more social contacts in order to make important decisions when entering a market (Casson, 1997). Therefore, well-established networks can increase a firm's performance and also influence organisational development (Beamish & Goerzen, 2005). For instance, in a study of the collaborative structure of networks, Koleva (2002) argues that long-term relationships in the global business, alliance, networks, and JVs can be perceived as the most important requirement for collaborative projects, because they influence inter-organisational performance and outcomes.

A number of studies on the benefits of networks have been conducted in relation to inter-cooperative organisations, such as the exchanging or sharing of vital information (Gulati, 1995) or learning new skills and acquiring new knowledge from partners (Gulati et al., 1994). These benefits are of the greatest interest to organizational strategy (Goerzen and Beamish, 2005). Social networks have been identified as important bridges to resources in daily business (Lin, 2004). However, few studies have explored the significance of networks in the context of JV (Gulati, 1998). Social networks are an individual's or group's means of acquiring significant resources, facilitating collaborative manufacturing, or doing cooperative research and development functions (Powell et al., 1996).

However, in the JV structure considerable concerns need to be raised regarding the implications of interdependent networks. First, the strength of networks can help firms to acquire necessary resources and capabilities through their links between particular inter-organisational activities. For example, a JV may have perceived the networks as a significant information contributor in many outcomes (Gulati, 1995). Jensen (2003) describes how those firms that pull resources together through network relationships can strength their competitive positions in specific markets. Second, networks allow firms to explore unanticipated or unthought-of alternative advantages. Based on the concept of social capital, firms can increase its market development activities by taking advantage of a networking system though sharing information resources (Gulati, 1998). Burt (2000) notes that the value of a JV is in trying to connect people who have not previously been connected in order to help to put the 'puzzle' together. In this sense, a function of networks in collaborative organizations is to link companies with different structures and backgrounds in order to create effective synergetic operations.

From the internal dimension of networks, there are four important functions closely associated with inter-organisational networks, which include information sharing, transfer of knowledge and skills, facilitating of the learning process, and trust building (Uzzi, 1997; Podolny & Page, 1998; Rosenkopf & Almeida, 2003; Goerzen & Beamish, 2005). On the

other hand, two important theoretical frameworks have been used to explain the use of external networks in the inter-organisational structure: transaction cost theory and resource dependency theory.

Table 4.1: Linking Inter-organisational Relationships to Theoretical Frameworks

Theoretical Framework	Description	Kind of Inter-organisational Relationship
Knowledge Transfer Process	<ul style="list-style-type: none"> Knowledge is crucial. It determines factors for creating and maintaining competitive advantages. Sharing knowledge between organizations can facilitate their learning process. 	<ul style="list-style-type: none"> Knowledge transfer tends to focus on networks and inter-firm cooperation. Through well-established relationships, firms can access the resources from an inter-organisational linkage.
Transaction Costs Economic	<ul style="list-style-type: none"> Defined as 'the management costs associated with either internally producing the service or buying it through contracting' (Brown & Potoski 2003, pg. 443) Managers must continually decide whether their organization will provide a service for itself, or arrange for another organization to provide that service for them. 	<ul style="list-style-type: none"> Joint ventures - avoid need to internalize all production and the threat of opportunistic behaviour of the other firm. Networks - firms benefit from being able to specialize and trust in others (strong ties); opportunity to learn from other members.
Resource Dependence	<ul style="list-style-type: none"> Related to the open systems school of thought, it 'focuses primary attention on one organisation and its exchange partners' (Scott 2003, pg. 118) Posits that organizations do not operate in a vacuum - they rely on other organizations for resources and must adapt to changing external circumstances. 	<ul style="list-style-type: none"> Alliance - take advantage of complementary assets of other firm. Consortia - firms benefit pooling their resources to advance their knowledge. Trade Associations - members have access to professional lobbying efforts; provide forum for learning.

Adapted from Barringer and Harrison, 2000.

4.5.1 Internal Networks

Positive exchange relations in the inter-organisational structure have been reported to enhance a firm's performance based on the nature of their interdependence, because they are likely to facilitate the exchange of intimate information among the partners and increase the level of interdependence despite various risks associated with collaborative businesses (Gulati & Gargiulo, 1998).

Li (2005) suggests that inter-organisational relationships promote a firm's interest for organisations to achieve individual and common goals together. This instrumental function of social networks allows the network participants to increase their capabilities by pooling their unique resources or competencies to accomplish a variety of tasks and purposes. Because inter-organisational work requires a high level of commitment for resources exchange, partners rely on various forms of informal networks to share their assets and skills in order to increase growth for each participating firm. For instance, Yan & Child (2003), in their study on Sino-foreign JVs' performance in China, suggest that, because external transactions can be a source of uncertainty, mutually interdependent internal relationships become vital for parent firms. These internal relationships offer effective learning and knowledge transfer between partners to avoid market uncertainty. In the inter-firm's strategic framework, Gomes-Casseres (1994) suggests that individual firms in

the collaborative relationship can transform relationships from an informal to a formal structure. The importance of building relationships among organizational parties can create a strong 'lock-in' effect. In the process of constructing networks, knowledge from partners can be 'exclusive' and would not be revealed to outsiders.

Logically, the stronger the relationship between firms, the greater the benefits they can obtain. In the context of social network theory, the contemporary study of inter-firm structure shows that a special relationship is necessary in order for partners to gain more resources and information and to enable them to create the desirable outcomes. As Wellman (1992) argues, it is worth investigating how the structure of networks affects the flow of resources, such as information sharing, knowledge transfer, learning, and trust-building.

4.5.1.1 Information Sharing and Exchange

In order to sustain normal operations, organisations need to stress reciprocal lines of communication and the interdependent flow of resources through relationships (Powell, 1990). Under the collaborative organisation structure, the networks support the organizations in accessing wide ranges of information that are of better quality and less time-consuming (Alder & Kwon, 2002). Since information requires passing a message or

communication (Nonaka & Takeuchi, 1995), it reflects how cross-functional connections can strengthen the individual's or group's abilities to work as a team in order to identify competitive solutions for organizations. Goerzen & Beamish (2005) refer to 'inter-organisational networks' as serving a conduit role for information, learning, and knowledge (p. 334).

Given the advantages that networks serve in exchanging information, networks allow inter-firms to receive clear information without the constraints of limited environmental resources (Uzzi, 1997). Cross & Parker (2004) realize that collaborative relationships are of strategic importance for organizational development and growth, and therefore the exchange of crucial information and resources is inevitable. Sparrowe et al. (2001) have identified a positive effect on individual and group performance when networks are used to obtain important information. In other words, if firms have well-connected social networks ties and effective collaboration strategies, they are more likely to succeed and be competitive in the market (Kristtiansen, 2004). In general, networks provide dynamic functions for firms to obtain information and solve problems and enhance their ability to accomplish their tasks (Brown & Duguid, 1991). Since organisations are more likely to use informal ways to seek information and resources (Chetty & Holm, 2000), partner firms

need be aware of employing their network's strategy to ensure that they can benefit from the information exchange and sharing process (Gulati, 1999).

4.5.1.2 Knowledge Transfer Process

Some researchers have considered such network functioning to be the natural starting-point for studying the structure of strategic inter-cooperative relationships (Rosenkopf & Almeida, 2003). Burt (2000) observes that many relationships originate in factors which brought together certain kinds of people. To access knowledge and encourage the flow of information, partners need a high level of trust. Gulati & Gargiulo (1998) describe one of the purposes of networking as facilitating the flow of knowledge more quickly and less expensively. It is believed that networks can increase communication within organisations, as well as across organisational boundaries. Relationship interactions between network actors are repeatable. Knowledge is a competitive advantage for JV partners (Osterloh & Frey, 2000), because it creates a barrier for potential competitors and constrains their competencies. JVs are the most significant form of cooperation in transferring tactical knowledge (Kogut, 1988), because they rely upon each partner's contributions and commitment to achieve the other's tactical objectives.

Knowledge is usually transferred through a variety of relationships as part of organisational development (McEvily & Reagans, 2003). McEvily & Reagans (2003) use empirical tests to confirm that strong ties in the knowledge transfer process have a positive effect. This indirectly supported part of Hansen's (2002) analysis of the results of sharing knowledge across organisation sub-units. Different ties may influence knowledge transfer in dyadic relationships (Reagans & McEvily, 2003). Network relationships certainly can address firm's strategic objectives by contributing useful skills and knowledge when dealing with uncertain environments. More importantly, networking can improve the quality of information and benefit the process of knowledge transfer.

4.5.1.3 Learning

Internal networks have also provided another advantage for organisations that use them to enhance learning activities. Lawrence et al. (2005) describe organisational learning as individual learning within the context of an organization. Specifically, they suggested that organisational knowledge and the process of learning new skills should correlate to their abilities of socialisation and communication, because individual interactions can facilitate an organisation's tactical transfer of knowledge (p. 394). Hamel (1991) emphasises that inter-organisational learning enables partners to acquire crucial skills and to 'supplement

strengths and cover weakness', which could well motivate international firms to adopt collaborative strategy (Liu & Vince, 1999, p. 668).

Supporting this view, Powell & Brantely (1992) suggest that firms would be more successful if they could learn from others quickly and effectively, thereby avoiding the potential pitfalls of creating enemies or behaving opportunistically (p. 371). Owing to the strength of learning variables, networks can be seen as important mechanisms in facilitating the growth of firms (Uzzi, 1997; Rosenkopf & Almeida, 2003). Borgatti & Cross (2003) suggest that network relationships could explain the learning process used by both firms (collectives) and individuals in relation to information seeking and sharing.

Learning is associated with the knowledge transfer process, and networking provides an effective strategy. Powell (1990) and also Gulati et al. (2000) both emphasise that close network relationships can facilitate the learning process between partners because it smoothes the firms' knowledge transferring and learning process with less cost to the different parties (Reagans & McEvily, 2003).

It is generally appreciated that high level organisational learning is most likely to be dependent on network integration. Interaction between individuals within organizations can hasten the learning process if time is of essence (Gulati, 1998; Baum et al., 2000). Burt (2000) suggests that effective learning relies on existing relationships, and these can help network actors identify what kinds of people are most compatible on the basis of previous experience.

4.5.1.4 Trust Building

In *The Hidden Power of Social Networks*, Cross & Parker (2004) suggest that trust is a critical factor in the process of network building. They have identified ten human actions based on the study of interpersonal trust, including the following: acting with discretion to get people's trust; words and deeds determining trust; developing trust through frequent communication and interaction; sharing vision and language for promoting trust; contributing knowledge to develop trust; role playing in promoting trust; sharing something of value for a trustworthy relationship; making decisions fairly and with transparency; and encouraging trustworthy behaviour. Based on these trust-related actions in social networks, frequent contact should also establish strong trust relationships in interdependent organisations.

Some studies suggest that the more contact between network actors, the greater the trustworthiness of the relationship (Gulati, 1995; Beckman et al., 2004). Trust building behaviours have a great influence on individuals or groups in a variety of settings. Pearce et al. (2000) argue that trust factors related to personal attitudes have an impact on the success of inter-organisational collaboration. Uzzi (1997) also points out that one of the components of socially embedded ties is trust, because it allows organisations to overcome critical problems by working together as a team. It is clear that the development of trust requires extra effort, which is voluntarily given and reciprocated (Uzzi, 1997, p. 41). In particular, if organisations want to create 'win-win' situations, it would be necessary for them to develop high levels of trust via frequent communication in order to overcome opportunistic behaviour (Zeng & Chen, 2003).

From the economic perspective, the higher the degrees of trust between organisations, the less protection they would need and, accordingly, the less they would be dependent on formal institutions to enforce agreements (Knack & Keefer, 1997). Therefore, in the formal inter-cooperative structure (e.g. a JV) building a trustworthy relationship is a significant step towards a successful cooperative structure, because it influences future collaborative performance. Boersma et al. (2003) describe that trust plays an important role in the performance of JVs. They identify the following successful trust-building factors: previous

history, negotiation, commitments, and execution. They have found that both trust and network relationships among firms are essential in order to increase their motives for economic cooperation.

4.5.2 External Firm Networking

Unlike internal networks within firms, external networks mainly focus on how cooperative firms can obtain resources (Shiva, 1997), gain competitive advantages (Morris, 1998), and build up long-term relationships to secure supplier and customer working relations (Chetty & Holm, 2000). According to complementary characteristics in the inter-firm structure, external networks serve as a dynamic sourcing mechanism by pulling together resources for organisations and motivating organisations to exchange useful information and knowledge through specific network ties to benefit both resource suppliers and recipients. External networking enables organisations to extend their competitive capabilities and ease the process of transferring complex knowledge to increase cooperative performance (Reagans & McEvily, 2003). Based on empirical evidence from the case of Toyota, Dyer & Nobeoka (2000) investigate the effectiveness of networks in helping organizations gain competitive advantages by learning and absorbing knowledge through 'external networking systems' to create effective management strategies. With regard to entry into the foreign market, Ellis (2000) suggests that relationship development is significant within

inter-organisational structure because it can generate useful information and knowledge as they bridge over the structural hole of interdependence organisations (p. 444).

Networks affect the outcome of cooperation, therefore it is useful to construct relationships outside the inter-organisational structure (Baum, Calabrese and Silverman, 2000). External networks can produce desirable outcomes to increase the level of cooperative performance (Shiva, 1997). Powell, Koput, and Doerr's (1996) study on inter-organisational collaboration finds that relationships are 'a vital need for relevant knowledge', since knowledge is not easy to capture and produce inside the boundaries of inter-organisations (p. 143). Therefore, it is necessary to build the bulk of network relationships with other organisations or individuals to lift the constraints from dyadic relationships in the inter-organisational structure. Also, based on the network reciprocal principle, networks may be a good source of identifying resources because they facilitate the process of finding specific opportunities in a variety of business environments. In a study of strategic alliances Gulati (1998) points out that those firm's interactions and external relationships depend upon the significance of social networks. It appears that external networks are a significant mechanism in generating a wide range of knowledge. For instance, within the framework of JV networks, which indicates a sum of contributions from at least two different organisations, parent firms who want to access a particular market will not only

rely on their past experience or existing partners, but also endeavour to develop different types of relationships with others to ensure successful JV activities (Mainela, 2003).

4.5.2.1 Transaction Cost in Social Networks

Many studies have explored the transaction costs of social networks, which may influence the relationships between firms. Das & Teng (2000) suggest that decision-making was centred on minimising the sum of transaction costs and production costs. The concept of the transaction cost issue in the context of inter-firm networks can motivate firms to run more efficiency by minimising the sum of production and transaction costs (Williamson, 1975; Kogut, 1988; Hennart, 1991), which in turn can improve the efficiency and effectiveness of firm's operations (Gulati, 1995; Adler & Kwon, 2002). Williamson (1985), who has specialized in transaction cost theory, argued that transaction costs were more likely to occur when firms associated with high uncertainty about a firm's development and performance. Building on this notion, the transaction cost in inter-organisational firms is correlated with complementary relationships, which further suggests the importance of network ties in identifying compatible partners (Goerzen & Beamish, 2005). Mahon, Heugens, and Lamertz (2004) suggest that the inter-organisational partnership can be seen as a supplier/buyer relationship because it indicates the significance of economic transactions relationship between firms based on the different economic circumstances.

This perspective on transaction costs seems to fit well with the networking theory. Borgatti & Foster (2003) assert that in order to maximise economic performance as a motive for exchange behaviour, networks increase the competitive advantage as a means of safeguarding transactions, as well as helping to smooth the economic transaction.

In reverse logic, a partner may view networking within inter-organisational relationships as essential to effectively develop alliances, such as JVs, and positively affect transaction costs. Therefore, the concept of transaction cost reduction has dominated firm's decision-making processes, for example in terms of the development of local distribution channels (Killing, 1983), local market know-how (Blodgett, 1991; Inkpen & Beamish, 1996), and understanding of the local regulatory context (Kobrin, 1982). Williamson (1985) suggests that transactions would occur when market exchanges take places. Consequently, frequent contact or interactions with certain businesses may be an important determinant of transaction costs.

Powell (1990), in *Network Forms of Organisation*, has suggested that close and stable social relationships or ties can be reduced due to frequent transactions exchanges. He summarizes the differences between pure market transaction and networks exchanges as follows: 'In market transactions the benefits to be engaged are clearly specified, no trust is required and agreements are bolstered by the power of legal sanction. However, networks

form of exchange entails indefinite, sequential transactions within the context of a general pattern of interaction. Sanctions are typically normative rather than legal' (Powell, 1990, p.301). This view has been further applied to collaborative organisational structure to define the significance of network relationships, since the core concept of coordination and cooperation lies in the 'exchange' mechanism for parties to foster interdependence. Drawing on the concept of organisational network from Embers (1997), Powell explains that cost reduction is a key motivation for networking, because efficient and effective collaborative processes may reduce transaction costs. Goerzen & Beamish (2005) however argue that whilst networks within the IJV structure can increase the competitive advantage by pooling complex skills and resources, these benefits are sometimes offset by the costs of organising extra transactions, since partners may have different backgrounds and levels of experience based on current social, cultural, economic, and political conditions.

4.5.2.2 Resource Dependency in Social Networks

While transaction cost theory mainly focuses on minimising costs, the resource dependency framework begins from the assumption that the firm's core competencies can be obtained from other organisation's resources, which are 'valuable, rare, intangible, and non-substitutable' (Barney, 1991; Srivastava, Fahey and Christensen, 2001, p. 778). According to Embers (1997), 'firms can gain competitive advantages because the

well-established networks allow them to gain access for desired resources and capabilities which can complement each other; they can in a different way enhance their abilities, share risks, gain market power, or realize economies of scale and scope' (p. 25).

Resource dependency theory argues that the importance of cultivating a network is to exchange or pool resources between partners and thereby increase firm's performance (Tsang, 2000). For instance, organisations usually obtain valuable resources through a formal long-term cooperative structure instead of through costly strategies of acquisitions or mergers (Pfeffer & Salancik, 1978). Pfeffer & Nowak (1976) study the relationship between the social structure and resource allocation. They found that individuals are more likely to seek existing social relationships when they are in uncertain environments, when decision-making will be based on the relationship between the decision-maker and those who are affected by the decision (Pfeffer & Nowak, 1976, p. 234).

In fact, organisational networks can be perceived as 'multi-dyadic' resource-dependent relationships. Casciaro & Piskorski (2005) suggest that, whether the two actors' dependencies are balanced or imbalanced may explain the reason for obtaining the critical resources from collaborative organisations. Organisations have created bonding relationships not only to pool resources, but also to ensure the performance of transaction

partners (Pfeffer & Nowak, 1976, p. 403). Pfeffer & Nowak (1976) suggest that, organisations are often constrained by their environmental factors, but through organisational linkages can overcome environmental influences and provide the focus on resource interdependence.

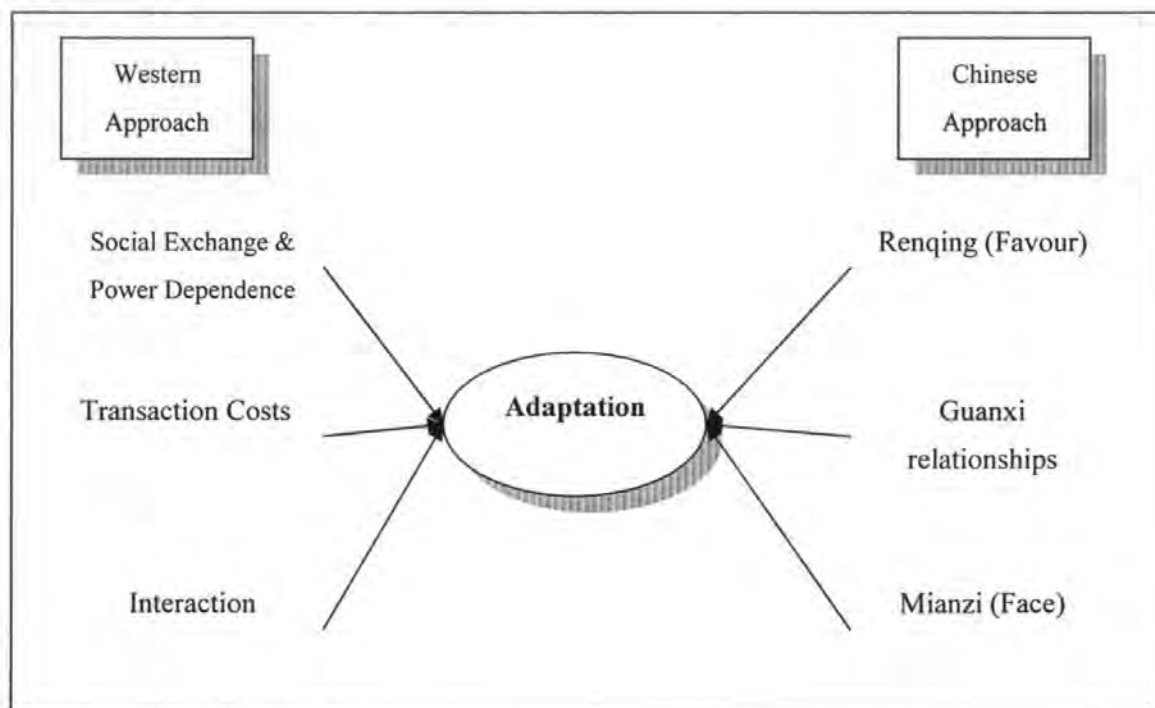
Clearly, both human network interactions and resource compatibility are positively interconnected and greatly affect firm's performance within the cooperative structure. As Pfeffer & Nowak (1976) state, there is a 'need to achieve economic scale in operation, overcome resource limitation and share risks among JV partners' (Pfeffer & Nowak, 1976, p. 408).

4.6 Guanxi and Social Networks

It is useful to compare and contrast the concept of Western social networks and Chinese guanxi relationships to understand the variation and homogeneity of network ties in different settings. A number of comparative studies of guanxi and social networks have identified their similarities and dissimilarities. Wilkinson & Yeoh (2003) confirm that value creation and function in Chinese guanxi and European social networks have very similar contexts, based on trust and social bonding. Fang & Kriz (2000) contend that the Chinese relationship is more likely to focus on the personal level, while the Western

network is more likely to emphasise inter-organisational relationships. Wilson & Brenna (2001) indicate that they found both Western networks and Chinese guanxi relate to the personal and organisational levels. Consequently, it is important to examine the similarities and differences between these two distinctive networks in terms of their function and approaches. Table 4.1, below, will show the importance of relationships in influencing firm's efficiency and effectiveness in different cultural settings.

Figure 4.1: The Western and Chinese Approaches to Inter-firm Adaptation in Business Relationships



Adapted from Wong and Leung , 2001

4.6.1 Similarity of Guanxi and Social Networks

It has been shown above that there are important areas of overlap between social networks and guanxi relationships, and both may reveal the importance of personal connections within a confined population (Andersson & Forsgren, 2002). Tsang (1998) and Standifrd & Marshall (2000) both argue that 'guanxi is not a unique feature of Chinese society; is exists to some extent in every human society' (p. 65). In their studies they found that guanxi and social networks are based on the network actors' interactions as they constitute complex social relationships. As Baker (2000) regards the similar core concept of networks and cited from networking experts Fisher & Vilas (1996) 'networking consists of creating links from people we know to people they know in an organized way, for a specific purpose, while remaining committed to doing our part and expecting nothing in return' (p.71). This expression of Western networks has coincided with the Chinese guanxi concept, which emphasises the value of long-term relationships (Lovett, Simmons and Kali, 1999). Although developing guanxi can be slow and costly, individuals or groups are more likely to enjoy an advantage from such close relationships. Both guanxi and social networks have evoked a wide variety of research including on such topics as interpersonal relationships (Chow & Ng, 2004), inter-organisational ties and management (Wright et al., 2002), and cross-national networks system (Wellman, 2001).

Several characteristics and features that social networks and guanxi relationships have in common have been identified as follows. First, the guanxi relationship is an important factor for daily interaction in China, because it helps provide valuable information in varying circumstances, as well as allowing individuals or groups to establish strong commitments to one another (Luo, 2000). In Western social networks, network ties can perform a similar function to obtain information (Granovetter, 1974) or resources (Gulati & Gargiulo, 1998) in varied levels of the social structure. Second, social networks emphasise building professional and personal relationships (Cross & Parker, 2004), a notion that coincides with the special and rare guanxi (see Chapter 3) development in Chinese guanxi networking environments. Cross & Parker (2004) stress that the personal appeal typically is more effective when network actors seek assistance, largely because relationships create more opportunities for people to exchange useful information or for people to collaborate effectively. Third, the main function of guanxi is to find a way to evade the Chinese government's bureaucratic system or political interference (Yan & Luo, 2001). In this regard, Burt (2000) cited Crozier's study on the French bureaucratic system in which 'using personal relations to work around lines of bureaucratic control is an invitation to exclusion' (Crozier, 1964, p. 223). Firms are more likely to avoid political difficulties by combining network resources, thus increasing the chance for individual success. Fourth, pre-existing relationships are clearly important to both Western social

networks (Human & Provan, 2000) and Chinese guanxi relationships (Tsang, 1998) as a basis for establishing trustworthy relationships. Although both have distinctive cultural heritages and characteristics, they share instrumental functions (Wellman, 2001). As Granovetter (1995) suggests, personal relationships have developed through a history of interaction. Lovett, Simmons, and Kali (1999) suggest that the interesting aspect of the guanxi process is that relationships are established through existing guanxi, such as ‘friends of friends’ or ‘family members of friends’.

Table 4.2: Summary of the Similarities and Differences between Guanxi and Social Networks

	Chinese Guanxi Networks	Western Social Networks
Characteristics	Largely involved with sentiments, affections, and emotions in relationships	Largely focused on instrumental relationships
Networks	Strength of guanxi networks at every level of Chinese society	Business transactions come first and then building up networks
Trust	Essential for building personal relationships	Essential for building systematic relationships
Commitment	Considered group goal	Considered individual goal
Concept Value	Confucianism concept – long-term relationships	Contractual concept - specified term to relationship
Reciprocal Relationship	Exchange favour to maintain relationship	Exchange specific products to maintain relationship

4.6.2. Dissimilarities between Guanxi and Social Networks

Although the social network and guanxi relationships may be practised in a very similar way, the concepts behind these two networks are completely different and deeply rooted in distinctive cultural norms and values. Based on the previous studies, several noticeable differences can be found between Chinese guanxi relationships and Western social networks which may influence actor's economic activities.

First, guanxi relationships have their own unpredictable characteristics and requirements (Chen, 2001), hence Chinese people prefer to keep their guanxi options open in order to gain benefits from guanxi practice. Guanxi actors rely on their beliefs of predestination and fatalism to form their close relationships (Ho, 1998). Chinese believe that having numerous friends can be seen as an intangible asset, therefore one should not limit his or her guanxi networks. This view was supported by Chen (2001), who explains that more guanxi relationships are considered necessary in order for individuals or groups to avoid potential problems. This is particularly true in China, which lacks rules of law and transparency in regulations.

Unlike *guanxi*, Western social networks reflect a strong incentive to search for the solutions or needs that provide the valuable links for network actors with resources and solutions. Moreover, the Western social network resources are often generated by actors who have common backgrounds, such as 'school ties' or 'the old boy network' for developing future personal or business networks (Wilson & Brennan, 2001). Purchase & Kriz (2000), who compare both Chinese and Western networks in business practices, point out that the network in the Western context is constantly emphasised at the organisational level, whereas in the Chinese context the network focuses on the personal level.

The second obvious difference between *guanxi* relationships and social networks is their attitude and behaviour in terms of relationship interactions. Allen (2000) discusses two distinct types of social supports: logical thinking and materialism in social networks. He believes that the primary source of material support is from family members, while the primary source of emotional support is friends (p. 489). On the other hand, the Chinese *guanxi* relationship has always played a central role in the Confucianist ideology (see Chapter 3). Therefore, it provides the primary resources for both material and emotional support for family members in different social environments to protect them against any negative effects. It is apparent that sentiments and affections are the distinctive feature of *guanxi* because they represent an 'exclusive' function for a specific instrumental purpose

(Gold et al., 2002, p. 7). Social networks, in contrast, emphasise the moral, legal, and ethical elements for constructing network systems in Western society (Purchase and Kriz, 2000).

Additionally, cultural differences distinguish the concept of guanxi relationships and social networks, to summarise the differences that Buttery and Wong (1999) and Hutching & Murray (2002) suggest. They have found that the development of networks will be different in Western and Eastern cultures, both in terms of the core understanding of the networks between Western and Eastern society and in the implications for guanxi and social networks. For instance, a great number of studies have discovered that Western managers will find it challenging to exploit the Chinese market because, in addition to experiencing language and legal differences (Fock & Woo, 1998), they also may face the major barrier of personal relationships (guanxi), which will prevent them from penetrating the Chinese market and opportunities (Li et al., 2002). Western and Chinese networks' approach to business strategies largely influences firms' performance in competitive positions. Despite the cultural differences, network practice suggests that individuals or groups must pay attention to trustworthy behaviour, which may simultaneously change relationships between organisations or people and make the difference in organisational performance and personal rewards through resource and information-sharing.

4.7 Summary:

Social networks can be defined as a set of personal relationships in society. Social networks exist in different environments and serve a variety of functions for network users, such as information-gathering, problem-solving, or facilitating communication to obtain benefits from human interactions. In particular, social networks have been widely practised in the business arena to increase firms' competitive advantages through dynamic connections that have a positive effect on business performance. Social networks may be divided into two types: those with strong ties and weak ties, based on the closeness of personal relationships. These two distinctive network ties have been associated with economic activities, particularly in how they affect business development and performance. With strong ties, the stronger relationships can gain advantages for network actors through information-seeking and trust-building with other individuals. Since the weak tie entails fewer contacts with other individuals, it may be less reliable, but it leads network actors to obtain new information for useful knowledge.

Social capital can be generated from different social networks, e.g., personal ties or organisational networks, and used to achieve objectives and goals. Specifically, social capital involves trust, reciprocity, and networking, all of which encourage individuals or groups to cooperate in order to increase their strength in different social environments.

Networks provide different benefits in cooperative organisations. Ideally, social networks can reduce risks and opportunism in cooperative organisations so as to achieve mutually beneficial goals. The characteristics of networks may be categorised as internal and external, according to the function and feature within the inter-organisational structure. For example, internal networks within the organisation include four functions relevant to the inter-firm venture structure: information sharing processes, the transfer of knowledge and skills, learning processes, and trust building processes. External networks focus on two important aspects of the organisational structure: transaction cost and resource-based perspectives. External networks help explain the motives of networking and the significant function of connections in cooperative activities, based on the consideration of cost and resources in relation to an organisation's success and survival.

The concept of the Western social network and the Chinese *guanxi* relationship were found to have similar functions in terms of trust-building, emphasis on personal relationships, and reliance on network ties in a variety of settings. Therefore, it is important to understand the similarities and differences between these two distinctive networks so that firms can improve their efficiency and effectiveness in different cultural settings. The next chapter will test the hypotheses relevant to Sino-Taiwanese JVs and lays the basis for the research analysis in Chapter 6.

Chapter V Hypotheses for Sino-Taiwanese Joint Ventures

5.1 Introduction

This chapter will identify the possible strategic motives for JV formation between Taiwan and China with regard to their cultural similarity and the use of guanxi. Hypotheses have been formulated to focus on these two main aspects of this study. In addition the chapter explores the motives of Taiwanese investors' decision to enter into JVs and JVs' development and performance in Mainland China.

The purpose of this is to identify the way in which guanxi network ties may provide advantages for Taiwanese investors in the development and better performance of business in China. Based on the literature, the hypotheses are comprised of four central themes, with 16 supporting hypotheses that reflect the nature of JV formation factors (see Table 5.1). The central hypothesis is that Sino-Taiwan IJVs' formation, control and management, are closely related to Chinese culture and specifically guanxi network which have a significant impact upon the JV performance.

Table 5.1: Main Research Themes and Hypotheses

Main Themes	Hypotheses
The Political and Economic Situation	<i>H 1.1 The Taiwanese set up IJVs in the P.R.C., rather than other forms of International Business, and this is motivated by the specific need to reduce business risks and costs</i> <i>H 1.2 to access investment incentives and compliance with regulations.</i> <i>H 1.3 to access regulated industrial sectors.</i> <i>H 1.4 to access their Chinese partner's resources and capabilities;</i> <i>H 1.5 to off set the risk of political and military tensions.</i>
Culture and Language Similarity	<i>H 2. The Taiwanese set up IJVs in the P.R.C. due to the similarity of their cultural background</i> <i>H 2.1 common culture facilitates the building of trust.</i> <i>H 2.2. shared language eases business negotiations.</i>
Strength of Guanxi Networks	<i>H 3. The Taiwanese and Chinese common use of guanxi in personal and business relationships, assists IJV performance</i> <i>H 3.1 in initial partner selection.</i> <i>H 3.2 in business management and operations.</i> <i>H 3.3 in dealing with the difficult legal and political condition.</i>
Management and Operation	<i>H 4 The Taiwanese seek to gain control of the IJVs in order to improve the businesses' chances of success.</i> <i>H 4.1 to function effectively within the political and legal environment.</i> <i>H 4.2 better to secure their substantial financial commitments in China.</i> <i>H 4.3 to utilise well established Taiwanese managerial and business skills.</i>

5.2 Political and Economic Situations

5.2.1 Chinese Competitive Environment

In 2002, China became the largest recipient of foreign direct investment in the world (OECD, 2003), which suggests that China will further open up to the outside world in order to sustain its economic reform process and the Chinese government will further encourage foreign investors to participate in the national economic development and planning. Because of the strong growth in the Chinese economy in response to the demand for Chinese-made goods from overseas, there is no doubt that an increase in competition may be anticipated in Chinese markets. Walters & Samiee (2003) suggest that the effect of internal protectionism (local and provisional governments) and market disparities might further increase the intensity of the competitive environment for foreign companies.

Therefore, it is important for foreign firms to understand the Chinese economic environment and local market competition when they are deciding whether to invest in China. Lou (2001) suggests that foreign firms must recapture the 'golden age' period when FDI inflows to China made valuable contributions to China's economy. The rapid speed of market entry to China for foreign firms, however, has placed great pressure on foreign firms, because they cannot foresee the risks of China's fast changing environment, which may bring a negative impact (i.e. government intervention) on their business development (Yan, 1998). A JV provides foreign firms with an effective way of moving quickly to

establish a firm's position in Chinese markets (de Bruijn & Jia, 1997).

Doubtless, JV is a desirable entry strategy, because it may alleviate some pressures of foreign firms being in unfamiliar environment (Tse, Pan, and Au, 1997; Luo, 2000). Foreign firms can gain advantage by minimising their investment risks and costs, pooling resources, sharing technical skills, improving their firm's efficiency and quickly reacting and enhancing their competitiveness in the market (Harrigan, 1988; Pan & Tse, 1996). From an emerging market perspective, Child and Yan (2003) argue that China is a 'complex and uncertain environment' (p. 284), so the need for JVs is great because the outside venture partner can absorb most of the risks and increase firms' performance through working with local partners.

Following the same logic, Taiwanese investors that adopt the JV strategy can minimise the impact from market competition and create or maintain their firm's competitive advantages in order to cope with unexpected challenges from its internal or external environment. Since the competitiveness of the Chinese market is an inevitable phenomenon, the adoption of the JV strategy may be particularly effective in the case of Sino-Taiwanese JV partnership. For the Taiwanese partner, cultural and linguistic affinities with Mainland Chinese may emphasise the capacity to stay 'one step ahead' when doing business in China (Hsing, 1998). More importantly, a JV provides a significant buffer against the political

and institutional hazards in the weak Chinese legal systems. According to Clough's (1999) study, the main reasons for the slowdown in cross-strait trading and investments, aside from China's threatening stance, were: 1) the gradual elimination of preferential treatment for Taiwanese entrepreneurs; 2) the rising cost of land, labour, parts, and raw materials; 3) trade disputes; 4) the difficulty in obtaining loans; and 5) losses suffered by many investors (p. 55). This may also suggest that the JV strategy enables Taiwanese investors to pursue a broad range of competitive areas in China by eliminating these drawbacks. Thus:

H 1.1 The Taiwanese set up IJVs in the P.R.C., rather than other forms of International Business, and this is motivated by the specific political and economic situation to reduce business risks and costs.

5.2.2 Special Economic Incentives

After the Chinese government announced its 'Open Door Policy', the increase in foreign investments encouraged government decentralisation and allowed local governments to enact a sequence of preferential treaties to attract further foreign investments. Roehrig (1994) points out that the Chinese government keeps improving its economic policies to induce further foreign investments by liberalising in areas such as management structure, labour relations, resources procurement, tax and foreign exchange policies (p. 39). While special economic treatments have proved effective in attracting a large number of foreign investors to China, most of them prefer to invest or set up in specific areas, such as coastal

cities, special economic zones or technological development arenas to enjoy greater economic benefits.¹ The regulatory reviews of the Chinese government are designed to improve investment conditions in order to help foreign firms save time in searching for desirable investment locations (Beamish and Wang, 1989, p. 58). In recent years, China has provided more incentives for foreign firms (Luo, 2001), such as (1) exemption from import tariffs and related taxes on equipment and parts used by foreign investors for technological innovation; (2) a full refund of value-added tax for foreign investment enterprises (FIEs) that buy locally made equipment; (3) exemption from business tax on technology transfers; (4) exemption from corporate income tax, subject to prior approval, if the technology is transferred (p. 25). It can be expected that the Chinese government will continuously increase the number of special economic zones and technological development areas (Luo, 2000) to obtain additional foreign capital needed to sustain the nation's economic growth.

Luo's (2001) Chinese networks study observed that overseas Chinese contributed three quarters of foreign direct investment to China. China represents the most favourable investment location for overseas Chinese companies (Schlevogt, 2002). The JV is the best way for the Chinese government to absorb large amounts of foreign capital and advanced

¹ To encourage foreign firms to invest in China, the Chinese government established four Special Economic Zones (SEZs) in Guangdong and Fujian provinces in 1979. In 1984, fourteen coastal cities were opened to foreign investment where provides extra tax breaks and other incentives were offered (Luo, 2000).

knowledge and skills (Luo & Yan, 2001). On the other hand, the JV plays a key strategy for Taiwanese firms wishing to take advantage of special economic incentives. JV types of business are encouraged by Chinese governments (central or local), since foreign firms can bring in more capital and other important resources for future economic development. Consequently, through a JV formation Taiwanese companies can enjoy better access to resources thanks to Chinese economic policies and law adjustments (Roehrig, 1994). For example, China's government tailored special investment laws for Taiwanese investors only, such as Taiwan's Investment Law in 1988,² Law of Protection of Investments by Compatriots from Taiwan in 1994,³ and Rules for the Implementation of the Law of the People's Republic of China on Protection of Investments by Taiwan Compatriots.⁴ This sequence of friendly policies enacted by the P.R.C. government for Taiwanese investors has reduced the ambiguous legal terms of China's Foreign Investment Law and Taiwan's Compatriot Investment Law and allowed Taiwanese investors to enjoy both preferential treatments and legitimate autonomy in terms of faster approvals, better support services and more tax and import concessions (Cheng & Zhao, 1995; Luo, 2001). Therefore:

² The Minister of Foreign Trade and Economy Commission (MOFTEC) announced the Taiwan Compatriot Investment Law in 1988 to encourage Taiwan investors to set up businesses in China in order to maintain national economy development.

³ At the Sixth Meeting of the Standing Committee of the Eighth National People's Congress on March 5, 1994, President Jinag, Tse-Ming announced the Law of the People's Republic of China on Protection of Investment by Compatriots from Taiwan.

⁴ On December 5th, 1999, Premier of the State Council, Zhu Rongji also announced Rules for the Implementation of the Law of the People's Republic of China on Protection of Investments by Taiwan Compatriots' to protect Taiwan investors' businesses and promote Chinese economic development on both sides of the Straits.

H 1.2 The Taiwanese set up IJVs in the P.R.C., rather than other forms of International Business, and this is motivated by the specific political and economic situation to access special investment incentives and compliance with regulations.

5.2.3 Chinese Market Opportunity

The market opportunity presents one of the most attractive reasons for the willingness of foreign enterprises to do business in China (Yan, 2000). Harrigan (1988) argues that market demand, uncertainty and competitive behaviour in a volatile competitive environment encourage firms to adopt a cooperative strategy. For instance, in the early stage of economic reform the Chinese government permitted only a few foreign firms via JV formation to participate in economic development in various industries, such as technology and management, natural resources, and export products where they were urgently needed (Pearson, 1991). Luo (2004) points out that emerging markets, such as China, usually offer abundant and lower cost of resources such as labour, land, materials and nature resources, which are positively correlated with industrial growth. Under these conditions, firms can benefit from particular industry sectors where there is less likelihood of structural opportunities.

China is a complex environment with unstable political and weak institutional sectors; therefore, the use of a JV is widely accepted by foreign firms (Wei et al., 2005). In particular, specific industries need to comply with governmental policies that allow foreign firms through a JV to access critical resources and obtain control over economic development.

From the Chinese government's point of view, a JV can be seen as a means to ensure that the government is able to control foreign enterprises and thereby to eliminate the threat from Western culture. Yan (2000) has described such influential behaviour in industrial governance as one of the country's unique historical characteristics (p. 36). However, for foreign companies, the JV strategy may provide a chance to participate in prohibited industrial sectors, which are mainly controlled by central government and dominated by a few state-owned enterprises (Jefferson, Rawski and Zheng, 1992). These include energy development, automobiles, mining, financial services, pharmaceuticals, cigarettes, aerospace, telecommunication, programming packaging and retailing business, even though many of these regulations had been improved or abolished in recent years.

To understand the importance of the IJV in different industrial sectors, Yan & Child (2000) systematically examine 67 Sino-foreign JVs in each industrial sector and conclude that value chains in international JV strategies are significant for a partner's resources in a

complementary relationship: First, they consider how competitive advantage can be gained from the investing firm's unique resources and competencies, fitting the conditions of that industry. Second, they observe that a JV can offer benefits to firms by establishing and coordinating the organisational functions to enhance their success in various industries. Third, they realise that competitive advantages can be generated from an alternative structure of the industries under a JV's cooperative characteristics and functions.

Since foreign investment comes in many forms (Smart & Smart, 1991; Wei et al., 2005), the JV seems to be the preferable entry mode for foreign firms (Lin, 2000). As for Taiwanese firms in China, they apparently do need a strong competitive advantage and better competitive position, and JV may serve this purpose. Practically, in the context of China's economic reform, a JV provides access to different industries and facilitates integration into economic reform plans. With their geographical advantage, by collaborating with Chinese partners in particular industries, JV firms may benefit differently through risk and cost reduction, existing information networks sharing, or local financial supports (Yan & Child, 2004), and this may be of strategic importance for future development. Since China is proactively promoting its substantial economic advantages for foreign firms based on different industrial sectors, a JV can be considered an important market entry strategy for Taiwanese companies to access specific Chinese industries. Thus:

H 1.3 The Taiwanese set up IJVs in the P.R.C., rather than other forms of International Business, and this is motivated by the specific political and economic situation to access regulated industrial sectors.

5.2.4 Importance of Chinese Partners' Capabilities

Within the international JV context, sharing risks and enjoying complementary resources are probably the main strategic issues for firms that adopt the formation of a JV (Yan, 2000). Specifically, firms with different national backgrounds contribute distinctive competencies, such as country-specific knowledge, R&D skills and knowledge, local or international distribution channels, local employee recruitment and so on, to increase their competitive advantages in the host market. The JV strategic preference focuses on two main functions that have been widely interpreted as motives for JV parent firms. First, the formation of a JV creates a synergetic effect that enhances firms' performance in the host market by enabling them to share risks, costs and power in order to gain a competitive advantage (Luo, 2002). Second, despite the complementary function of competencies in a JV, partners' capabilities in learning and collaboration are the key elements for JV success. Firms are bound together because of their strong capabilities towards each other, which provide them with cost-efficient advantages in the search for critical resources and knowledge. Tallman (2000) emphasises that JV firms should share their specific resources with others to increase their competitive competencies, because each firm cannot produce

the same specific resources and knowledge. Hence, an adequate cooperation arrangement, such as a JV, can increase the value of firm-specific resources. From the cost-effective perspective, Williamson (1991) suggests that firms' capabilities are associated with resource synergies in the hybrid form of organisation, which can optimally align their transaction costs on firms' activities in uncertain markets. Based on the cost and resource base perspective, Luo (2001) concludes that firms' capabilities can be seen as a competitive advantage, because operating in an unfamiliar market is costly as well as replicating specific knowledge from other organisations. For this reason, the JV is more attractive than other entry modes.

Moreover, the JV partners' strong capabilities will progress to a higher degree of commitment between partners in order to secure firm-specific resources and knowledge in the long run. In particular, JV firms have a chance to learn from their partners in ways that will increase the firms' complementary interactions (Nakamura, 2005). Meanwhile, venture firms have a chance to evaluate their commitments and contributions to JVs, which will create the determination for better performance (Buckley & Casson, 1988; Inkpen, 2000). Thus, the importance of resource dependence and the economic transaction relationship between partners in JVs lies in their confidence and capabilities to fulfil commitments, which enable them to achieve higher economic performance and yield positive consequences to ventures' profitability and growth (Pearce & Robinson, 2000).

According to studies of Sino-foreign JVs, local Chinese capabilities can have an influential impact on JVs' performance and parent firms' contributions to JVs despite cultural background differences. Frequently, foreign firms strive for market opportunities and alternative resources in China. On the other hand, Chinese partners are more interested in absorbing foreign capital, advanced technology and management through the collaboration process so as to increase their competitive advantages (Yan, 2000). For this reason, firms that possess a high level of resources and capabilities not only enhance their bargaining power during the collaboration, but also pre-empt opportunistic behaviour by showing their superior competitive advantages in the host market (Luo, 2002).

For Taiwanese firms, a JV is not only a strategic tool for accessing Chinese markets, it is also a defensive strategy against threats and risks by way of partners' capabilities and knowledge. Clearly, Taiwanese companies have significantly increased their dependence upon local Chinese partners. This is because of a shift from the initial economic trend of 'receiving orders in Taiwan, manufacturing in Mainland China, exporting in Hong Kong' to 'receiving orders, manufacturing and exporting in Mainland China', in order to increase its competitive position, lower transaction costs and remove ambiguous restrictions. More importantly, partners' capabilities are an essential factor in influencing the commitment of Taiwanese investors to provide strong support for Sino-Taiwanese JVs. Thus:

H 1.4 The Taiwanese set up IJVs in the P.R.C., rather than other forms of International Business, and this is motivated by the specific political and economic situation to access their Chinese partners' resources and capabilities.

5.2.5 Hostile Political Environment

Many foreign firms are concerned that the political uncertainty in a host country may impede their entry strategy and decision-making. Political instability makes it difficult for them to predict risks as well as threats in a host market. Hence, the managerial literature points to political risk as one of the most influential factors that constrain firms' capabilities to cope with the challenges of a host environment (Doh, Rodrigues, Uhlenbruck, Collins and Eden, 2003). Doh et al. (2003) argue that political instability produces rampant corruption and an inefficient bureaucratic structure that will weaken competitive advantage. They also argue that political instability can negatively affect business operational and managerial costs in an uncertain environment.

China's political power is concentrated in the Chinese Communist Party (CCP). Although in recent years CCP has made many changes to the political structure and institutional system of China, it has not lost its political legitimacy (Wang and Wong, 1998). Child and Yan (2003) note that China has a complex and politically uncertain environment, which has a daunting reputation for foreign firms. Many foreign firms point out that Chinese

authorities usually encouraged them enthusiastically to set up their firms in China, but clearly they suffered great losses later because of political influence on firm's operations (The House of Commons, 2003). This illustrates the different level of risks to foreign firms when they decide to establish a foothold in China. In this regard, a cooperative structure such as a JV provides a problem-solving benefit through sharing costs and risks with local partners and thereby yields a positive outcome (Pearce, 2001). In a study of structural instability and reconfiguration of IJVs, Yan (1998) proposes that unanticipated changes in the political environment of China could impact on foreign firms' performance and produce structural instability.

A JV is an important market entry strategy for Taiwanese firms in view of the difficult political relations that exist between Taiwan and China. Sheng (2002) and Sutter (1998) both suggest that the level of military confrontation suddenly increased the cross-strait political tension between Taiwan and China.⁵ In addition, the 'One China Policy' is an ongoing issue which has directly impacted on the development of cross-strait relations especially to Taiwan's political and economic benefit in recent decades. In addition, cross-strait relations are complicated by the refusal of China to recognise Taiwan as an

⁵ See Adam W. Clarke, Taiwan and China - A Most Ticklish Standoff. President Clinton allowed Taiwan's President Lee Teng-hui to make a private visit to Cornell University that created strong opposition in Beijing, which repeatedly showed its military force in the Taiwan Strait from July 1995 to March 1996.

independent nation, in accordance with China's 'White Paper on Taiwan'.⁶ This clearly explained the timing and conditions for taking over Taiwan by force: 1) if the island declared independence, 2) if it was occupied by a foreign power or, 3) if Taiwan indefinitely refused to enter into negotiations on reunification.

In 2004, the Chinese Communist Congress passed an Anti-Secession law⁷ to reinforce its determination to solve the Taiwan problem. In such political uncertainty, firms have to take a careful approach to forming a better strategy to accomplish their specific objectives and tasks. Thus, the special political situation between China and Taiwan has become an inescapable issue for Taiwanese firms that take priority over any other investment considerations. Indeed, the political environment is a major source of unanticipated changes for firms (Yan, 1998); in particular, there is no formal bilateral diplomatic relationship. This is consistent with previous JV studies that have suggested that JV is a good defensive strategic tool for reducing risks. Therefore:

H 1.5 The Taiwanese set up IJVs in the P.R.C., rather than other forms of International Business, and this is motivated by the specific political and economic situation to off set the risk of political and military tensions.

⁶ See Koo's statement in Chung Kuo Shih Pao, 30 July 1999. It generally summarised what Lee Teng-hui had said about the 'special state-to-state relationship'.

⁷ In 2005, the Chinese Congress passed the Anti-Secession Law, which can be seen as a determination to bring Taiwan into formal unification with the Mainland under the 'One China' policy (Asia Times, Greater China, March 15, 2005).

5.3 Culture Similarity in IJVs

In the JV framework, the cooperation of the partners tends to be influenced by cultural compatibility (Ali K & Eggert, 1999; Barkema & Vermeulen, 1997). Culture may be considered as a crucial factor in achieving an effective entry strategy through working with alliances. In particular, differences in culture may cause conflicts and dissatisfaction, within a JV or a strategic alliance (Shenkar & Zeira, 1992). Barkema et al. (1996) note that a JV is more susceptible to the importance of cultural differences, because venture partners may have different national backgrounds and need to take cautious approaches when managing such organisations.

Problems can be expected in cross-cultural JV operations (Beamish, 1987; Geringer & Woodcock, 1991; Yan & Luo, 2001) and must be dealt with by venture parties in order to maintain their competitive advantages. Kiong & Kee (1998) stress that firms have their own cultural value systems which have a negative impact on their co-managerial capabilities and lower collaborative effectiveness. Li, Xin and Pillutla (2002) and Shenkar (2001) have paid special attention to the importance of cross-cultural management issues in JVs to explain how venture partners' behaviour and interactions are associated with their national backgrounds. Clearly, they have shown that if firms are familiar with the local culture, it may facilitate the efficiency of cooperation (Li et al., 2002) and provide useful

knowledge by speeding up the learning process and enhancing core competencies and complementary functions (Nooteboom et al., 1997).

In particular, JVs in China may illustrate the significance of cultural problems in managing, because they involve cross-organisational and cross-cultural issues that may necessitate greater coordination to create synergy for the JV (Sing Keow, 1999; Brock, 2005). Adler et al. (1986), cite Mishler (1965) in their review of global cross-cultural management, to explain the importance of cultural differences to managers because 'the greater the cultural differences, the greater is the likelihood that barriers to communication will arise and that misunderstandings will occur' (p. 303).

As mentioned earlier, the majority of foreign investments in China are generated by overseas Chinese (Tracy & Lever-Tracy, 2002).⁸ This fact may indicate some significant benefits of cultural similarities in JVs. First, cultural and ethnic similarity, combined with speaking a similar language or dialect may give overseas Chinese the benefit of communicating efficiently with their Mainland Chinese JV partners. Second, successful cooperation with overseas Chinese could attract further potential foreign investors and show them that it is safe and profitable to invest in China, since the Chinese government

⁸ Tracy and Lever-Tracy (2002) conclude that the whole of the Chinese diaspora is engaged in the process of re-industrializing and modernizing China through their investment activities in China (p. 71).

still needs more foreign capital to sustain its economic reforms. Third, ethnocentricity plays an important role in relation to Chinese attitudes towards overseas Chinese investors. In the past two centuries China suffered brutal attacks and has been taken advantage of by Western countries. The Chinese government is more willing to accept and cooperate with overseas Chinese firms from Taiwan than it is with Western countries. For example, Yan (1993) observes that Sino-American JVs have unsatisfactory performance levels because of differences in cultural background and outlook. Fourth, a personal connection with someone with a similar cultural background in particular is a sound basis for collaboration or collaboration for finding a valuable resource to increase the chances of JV success.

Therefore, Taiwanese firms may have an inherently better competitive advantage as potential JV partners in China as result of cultural similarity and geographical proximity (Pearson, 1991), since 'Chinese workers, businessmen, and government officials express a strong preference to work for and negotiate with Taiwan companies' (p. 2). This may explain a Taiwanese firm's decision for a JV to secure their position in China and cement their relationships with Chinese partners (Harrigan, 1988). In this sense, Taiwanese firms are more likely to yield positive outcomes in a JV, since they have an 'inherited advantage over non-Chinese nations' when collaborating with Chinese partners (Li and Labig, 2001, p. 8). Thus:

H 2. The Taiwanese set up IJVs in the P.R.C. due to the similarity of their cultural background.

H 2.1 The Taiwanese set up IJVs in the P.R.C. due to the similarity of their cultural background and shared language eases business negotiations.

5.3.1 Trustworthy Relationships in Joint Ventures

Trust is important in international strategic cooperation (Tsang, 1998). Hung (2003) suggests that any strategies by firms should consider the importance of trustworthiness in order to maintain significant long-term relationships. Fryxell et al. (2002) cite McAllister (1995) to stress the importance of trust, which can be identified as two types to explain partners' control behaviour in IJV contexts: cognitive-based trust and affect-based trust. Fryxell et al. (2002) explain that cognitive-based trust provides prudent and formal understanding that functions to enable parent firms to work on a long-term basis. Affect-based trust creates the belief and promise of strong relationships, which allows partners to mitigate opportunistic behaviour (p. 831).

For venture partners to work effectively, a JV requires trustworthy relationships, because such relationships include partners who are: 1) willing to take more risks without fear of opportunistic behaviour in cooperative or JV formation; 2) willing to re-manage their relationship without fear of reprisals; 3) willing to act as a group in support of common

mutually beneficial goals (Antoniou & Witman, 1998, p. 520). Additionally, based on interdependence practice in the JV, Pearce (2001) argues that when venture firms encounter problems and difficulties, they require effective coordination and open information exchange to increase their problem-solving capabilities. This suggests the importance of considering trust as a critical element in JVs, because it can stimulate partners to share responsibilities and capabilities for achieving their JV goals.

Trust is associated with social control mechanisms (Fryxell et al., 2002). It creates norms and values to limit venture partners' opportunistic behaviour (p. 870). In China, *guanxi* can act as a social control mechanism, because *guanxi* is a trust-based relationship and it reinforces confidence in JV cooperation in the long run (Luo, 2000). The significance of building up trustworthy relationships via *guanxi* is that the *guanxi* connection relies on a relationship based on sharing similar identity and common background (Tsang, 1998) in order to develop a close and trustworthy relationship. Clearly, most problems arise from the lack of trustworthy relationships. So, having a similar culture background and speaking the same language will have a positive effect on trust development. Olk & Earley (2000) support this point of view. They explain that a strong interpersonal relationship will reduce the need for contractual mechanisms in an international strategic alliance, because the shared understanding and trust between each partner will decrease the need to depend on formal contractual provisions. In other words, *guanxi* means much more than interpersonal

relationships, because trustworthy relationships in a JV can result from guanxi exchange via the generation of interpersonal trust.

Trust can be seen as an effective tool for enhancing cooperative performance. However, one partner needs to understand the culture, goals, and value of the other party and use this information for effective collaboration (Antoniou & Witman, 1998). Therefore, trust is more important for Sino-Taiwanese JVs because of the existing hostile political relationship between the two countries, which might otherwise cause structural instability for such JVs. Thus:

H 2.2. The Taiwanese set up IJVs in the P.R.C. due to the similarity of their cultural background facilitated the trust building process.

5.4 Importance of Guanxi to Sino-Taiwanese Joint Ventures

As has been shown in Chapter 3, guanxi generally refers to interpersonal relationships (Chen, 2000) or good connections (Tsang, 1998) and may be the essential factor for successfully completing tasks in virtually all spheres of Chinese social life (Gold, Guthrie and Wank, 2002). For example, Luo (1997) found 'guanxi' to be critical in Taiwanese business transactions and negotiations. Understanding the role of guanxi and its functions within Chinese political and economic systems can shed light on the importance of guanxi relationships in cooperative business practices (Luo, 2000) and enable foreign investors to

overcome potential challenges (Li & Labig, 2001). Schlevogt's (2002) recent empirical research illustrates that business entrepreneurs in China have readopted a traditional Chinese organisational model, which emphasises in particular on the significance of guanxi practice in both private and state-owned enterprises (p. 90).

Fundamentally, guanxi acts as a key factor in the Chinese business environment as a means of dealing with the ambiguity of Chinese legislation and bureaucratic systems. In fact, Yeung & Tung (1996, p. 9) identify three major reasons for business success associated with guanxi and long-term commitments: 1) those firms with more years of experience in China assigned lower priority to guanxi than those with less experience; 2) small and medium sized firms tended to place greater emphasis on guanxi than large companies; 3) firms in the tertiary and exporting sectors assigned greater importance to guanxi than those engaged in manufacturing and importing. These benefits may indicate that business performance is strongly associated with the use of guanxi relationships.

Guanxi has an important implication for firms within the inter-organisational structure regarding the involvement of complex interactions between partners as well as the combination of two parent firms' external networks in China. As far as inter-organisational interactions with Chinese partners are concerned, guanxi is more likely to lead to a higher performance within the harmonious working environment (Yan & Luo, 2001). For example,

guanxi is constantly emphasised in the reciprocal relationship. It will enhance the complementary function in the resource exchange process within the inter-organisational structure such as a JV and may allow partners to gain their competitive advantage when conducting business in China. From the perspective of external guanxi networks, JV partners probably enjoy more opportunities than other foreign companies who have limited information and contacts, because partners have their individual networks systems, and are therefore in a position to exchange their related network ties.

Guanxi has important functions for large Taiwanese companies in China (Kao et al., 1995). It can be said that guanxi has strategic importance for Taiwanese investors (Luo, 1997), because they will benefit most from China's investment environment. As most of them are small and medium-size firms, they will be more flexible in using guanxi to obtain the specific resources (Hamilton, 1991). Typically, in forming a JV with Chinese partners, both Taiwanese and Chinese partners will have more convenient channels for accessing exclusive resources and increasing competitive advantages (Harrigan, 1987). In this sense, guanxi, in Sino-Taiwanese JVs, not only allows firms to overcome the problem of labour shortages, inefficient capacity, and seasonal fluctuations, but also gives Taiwanese firms a higher degree of flexibility in response to changing economic condition (Yu, 2001, p. 29). Thus, it is suggested:

H 3. The Taiwanese and Chinese common use of guanxi in personal and business relationship, assists IJV performance.

5.4.1 Guanxi in the Partner Selection Process

It is generally believed that, if firms decide to compete in overseas markets, they might have to consider collaboration with suitable local partners (Harrigan, 1985; Beamish, 1989; Geringer & Hebert, 1991; Buckley & Glaister, 1994; Luo, 2000; Yan, 2000; Luo & Yan, 2001). Using an appropriate partner selection process is likely to link firms to a compatible local partner (Yan & Luo, 2001), because it can neutralise the political disadvantage of being seen as an 'outsider' and so increase their competitiveness in the local market.

Since partner selection is a fundamental process to a JV, choosing partner selection criteria is an unavoidable exercise, because it can justify the objectives of a partnership in a JV. Geringer (1991) identifies two important partner selection criteria in the partner selection process: operation-related and cooperation-related criteria based on the venture firms' cooperation motives. Building on Geringer's (1991) study of partner selection criteria, Buckley and Glaister (1997) also identify partner selection criteria in accordance with 'partner' or 'task' perspectives to achieve successful cooperation in the market. The partner-related perspective focuses on a partner's capabilities, as well as its existing trustworthy relationships and business reputation before entering into a JV contract. The

task-related perspective emphasises the partner's local knowledge and market distribution resources. Such partner selection criteria are supported by Beamish's (1987) study, which examines 66 JVs in less developed countries and found that the partner selection process was driven by various needs: capitalization needs, human resource needs, market access needs, government and political needs and knowledge needs to reflect the importance of partner collaboration value in business practice. This is different from conventional partner selection, which only focuses on the importance of compatible and complementary skills, resources, procedures and policies to a successful JV (Ali K & Eggert, 1999).

In addition, Wong & Ellis (2002) have found that, once companies decided to cooperate, they are more likely to rely on their social relationships to identify potential partners by gathering important information in the early stages of the selection process. Given the significance of social ties in the partner selection process, guanxi in China would provide more benefits since it embodies a special kind of relationship (Wright et al, 2002). Indeed, as has been shown, guanxi is more than connections, which have influenced the economic structures or traditional ways of doing business in China (Holden, 2002). Holden (2002) argues that if a business fails to capture useful functions from guanxi, it may result in business failure or dissatisfaction. Tan (1999) observes that small and medium overseas Chinese enterprises are more likely to employ Chinese guanxi in sourcing for IJV partners since they trust the pre-existing guanxi relationships (Luo, 2002).

Adopting guanxi functions for partner selection may allow JV partners who have similar cultural backgrounds to perform better than counterparts who are culturally distant (Oudenhoven & Zee, 2002). The well-matched JV partner can provide important synergies that enable firms to complete tasks; for example, crucial local market knowledge, financial resources, technology know-how and past business experience (Ali K & Eggert, 1999). In the context of a JV, it has been suggested that guanxi may be an effective and efficient tool for selecting appropriate venture partners (Chadee & Zhang, 2000).

In this sense, the Taiwanese may be better placed to seek relevant local Chinese JV partners because of their geographical and cultural proximity. Since there is no official communication channel and market information is not always available from China, Taiwanese firms have to rely heavily on ethnic networks to help them to connect with reliable JV partners. More importantly, the hostile relations between Taiwan and China have produced a negative impact on economic exchange. Hence, guanxi not only becomes a significant source for gathering up-to-date market information with fewer costs, but it also provides a pre-emptive advantage to prevent other foreign investors from penetrating markets (Yau et al., 2000). Taiwan's firms will prefer to identify their partners through guanxi relationships. This may quickly lead them to the trustworthy stage, since a JV is like an international marriage and requires trust to sustain the cooperative relationship.

It is important to determine compatible venture partners in the first place, through the closeness of guanxi ties within a Chinese business context, which are more likely to be used to match the most appropriate and trustworthy venture partners. Therefore, this suggests:

H 3.1 The Taiwanese and Chinese common use of guanxi in personal and business relationship, assists IJV performance in initial partner selection.

5.4.2 Guanxi in Sino-Taiwanese Join Ventures Management

After foreign firms have successfully entered Chinese markets, firms and managers immediately have to meet different kinds of problems during the business development period, such as maintaining daily operations and seeking business opportunities as well as alternative resources. Given that guanxi provides benefits for maintaining daily business management, awareness of guanxi is vital for foreign firms (Wright et al., 2002). Ruprecht (2002) suggests that managers in China are more likely to engage with four different groups, all of which require a strong guanxi basis to maintain those relationships, such as government, customers, key employees and suppliers. For instance, in relation to government, managers must develop a certain degree of guanxi with the authorities in order to reduce the negative effects of the Chinese bureaucratic system. With regard to employee aspect, guanxi can connect and maintain the relationship between employers and employees, which enables them to reduce conflicts and increase working efficiency for

both employers and employees. In addition, in relation to the customer aspect, the need for guanxi is inevitable because it will yield positive advantages by changing attitudes and behaviour on all sides. For example, it is apparent that guanxi can close the gap between business and personal life (Partnell, 2002). As for the supplier aspect, guanxi is likely to become an important mechanism to secure resources from suppliers, because it may lead to cheaper resources or service if it is cultivated in the long run.

Given the importance of guanxi in business management, it will positively impact on inter-organisation performance owing to its complementary nature and the frequent human interaction that it embodies. This makes guanxi a critical factor in cooperative management. Not only does it help partners bridge the gap between individuals who are culturally distinct, but it also enhances their managerial effectiveness and efficiency in the host market (Paul, 2000). For instance, in the context of the formation of IJVs, parent companies need to work together to achieve their common goal (Beamish, 1987; Harrigan, 1988; Wilson & Brennan, 2000; Yan, 2000), but it is difficult for them to reach consensus in co-management practices because partners may constrain each others' managerial skills and capabilities.

Sino-Taiwanese JVs probably incur more complex managerial and operation issues. Although Taiwanese investors share geographic proximity, cultural similarity and language capability with their China counterparts (Roehrig, 1994), Taiwan has been separated politically from the mainland for over a half of century, and each side has developed its unique social-political-cultural environment. In this regard, distinctive characters and identities may be expected. In particular, the Taiwanese consider themselves as 'Taiwanese' not 'Chinese'. In terms of the management in JVs, cultural differences will be a powerful influence on performance owing to different managerial systems, practices and knowledge. Clearly, the key issues lie in the differences in operating and managing jointly with local partners or government authorities. Therefore, *guanxi* can accommodate those differences between partners in Chinese JVs. Yan & Child (2000) suggest that inter-firms' network relationships can help parent companies to overcome co-management issues in a JV. It may be expected that people who understand the subtle meaning of *guanxi*, such as Chinese from Hong Kong, and Singapore and the Taiwanese, are generally more successful in China (Luo, 1997).

Hamilton's (1996) study of Taiwan's organisation and market processes shown that Taiwanese large organisations or small firms repeatedly emphasise the advantages of *guanxi* connections in their business operation, and, more importantly, often use such relationships to maintain efficient management. Hamilton further explains that *guanxi* can

not only enhance loyalty from employees, but can also provides effective control over business activities by using the family type of management to influence employees' sentiments and reduce their opportunistic behaviour. Thus:

H 3.2 The Taiwanese and Chinese common use of guanxi in personal and business relationship, assists IJV performance in business management and operations.

5.4.3 Guanxi and the Chinese Institutional Environment

While foreign investors believe that the Chinese market is too attractive to ignore – China is, after all, the largest emerging market in the world (Luo, 2000) – it lacks modern institutional systems and resources and poses a great challenge for foreign investors when they are conducting commercial activities in this environment (Child, Chung and Davies, 2000). Strong legal controls do not exist in China, which increases the chance for opportunism, rent shifting, bribery and corruption (Hoskisson, Eden, Lau & Wringht, 2000). In order to interact with such complex legal and bureaucratic systems, foreign firms have to learn how to employ interpersonal relationships (guanxi) to manage arbitrary negative influences and bring about efficiency in many aspects of business activities. Throughout the entire Chinese history, laws did not exist in Chinese history and 'the absence of a widely respected legal code in China means that everything is negotiable' (Holden, 2002, p. 12). In this sense, utilising guanxi seems to be an effective way to overcome the flaws of the Chinese legal system (Partnell, 2002). Appropriate connections

at different levels of Chinese society are often necessary to increase the effectiveness of business operations.

A number of debatable issues about the nature and consequence of guanxi have been discussed and explored (Gold, Guthrie and Wank, 2002; Li, 2004). For instance, some studies argue that guanxi in China can help firms obtain dependable information, protect their businesses from government intervention and help in conflict resolution (Leung & Wang, 2001; Li, 2004). Gold et al. (2002) reiterate the utilization of guanxi in an 'institutionally uncertain environment' in order to cope with the absence of formal and reliable system of laws and regulations in the economy. They even extend this point to argue whether the importance of guanxi will diminish if laws and market become more robust and regulated.

Others have argued that guanxi is a corrupt indication of a 'backdoor' approach to doing business which is a taboo for many international organizations (Guthrie, 1998). In a study of corruption in the implementation of Chinese economic reforms, Fan and Crossman argue: 'Under guanxi, firm managers have to maintain good relations with relevant government officials and managers of other firms to ensure the provision of supporting resources (e.g. electricity, water, etc) and the timely delivery of necessary raw materials and intermediate goods' (p. 197). Since foreign firms need to settle down quickly in the

Chinese market, it is worth using guanxi to deal with legal issues in China, because not only may it have a positive effect on a firm's performance, but also it can probably reduce cultural differences and equalise treatment to ensure that the foreign firm is treated fairly in China.

According to the arguments above, guanxi relationships represent an effective component of the JV entry strategy into the Chinese socialist market environment for Taiwanese investors. As stated earlier, Taiwanese investors have to bear more risks than any other foreign investors not only because of the hostile political situation, but also because of the economic hollowing-out phenomenon from China. Furthermore, the Taiwanese rarely get actual support and protection from the government. To make the situation even worse, in some cases, Taiwanese owned companies based in China have been closely monitored by the Chinese authorities in order to demonstrate their power in cross-strait relations.⁹ Therefore, forming a JV to manage different aspects of risk, can serve as a defensive investment strategy (Vernon, 1983) against strategic uncertainty (Yan & Luo, 2001). Also, using guanxi can provide an alternative solution for Taiwanese firms tackling different levels of problems and a source of sustainable competitive advantage (Tsang, 1998). According to the Taiwan Institute of Economic Research's investigation,¹⁰ there are many

⁹ China 'Punishes' Pro-Democracy Taiwanese Entrepreneurs Through Stringent Tax Investigation, *The Epoch Times*, July 1st, 2004, pp. 20.

¹⁰ 'The Analysis of China Investment Environment', *Taiwan Institute of Economic Research*, 2001, p. 92.

Taiwan-based firms embroiled in legal disputes in China which is still ruled by people, not laws. For instance, China's judicial system is still plagued by influence peddling, a lack of transparency, and other problems that make cases especially difficult for Taiwanese businessmen to have fair hearings.¹¹ This explains why most Taiwanese firms prefer to seek *guanxi* to resolve legal disputes instead of normal court systems. For these reasons discussed above:

H 3.3 The Taiwanese and Chinese common use of guanxi in personal and business relationship, assists IJV performance in dealing with the difficult legal and political conditions.

5.5 Taiwanese Firms' Management and Operation Practices in Joint Ventures

The greater the degree of control in cross-cultural management in an IJV, the better the performance yielded by parent firms (Geng, 2004). This relationship may suggest that control is the main driving force behind effective JVs. In practice, the costs and profits shared by venture partners depend upon their equity ownership structure (Kolev, Thrane and Mouritsen, 2002), which determines the level of control in a JV formation. Since JV partners are pursuing different individual goals and objectives in the collaboration process,

¹¹ Most judges are appointed by the Communist Party, and fewer than 7% have formal training. Also, Chinese judicial proceedings are generally not open to the public. Chinese National Federation of Industries (CNFI), 2001.

they have different ways of dealing with management and operations, which may yield a negative consequence for a JV's performance.

Firms in a JV are more likely to use an ownership strategy to gain control and minimise conflicts and problems during the cooperation. Control in cooperative ownership structures usually can be explained by the percentage of equity sharing that venture parent firms possess (Makino & Beamish, 1998). They suggest that, because the size of equity ownership represents the degree of control, the parent firms are able to exercise their influential power to overcome an unanticipated event, since a JV is a very complex and difficult structure to manage.

The preference of ownership structure for majority and minority types reflects the different considerations that influence parent firms in the cooperation process. For instance, although the venture firms may have fewer equity shares and are not actively created and organised activity therefore have less strategic impact on the JV (Harrigan, 1988), if JV parent firms can structure the JV's management system, decision-making process and corporate policies, they may increase their level of control over the JV partnership (Yan & Luo, 2001). On the other hand, in addition to business coordination, dominant control is a mechanism for reducing risks and potential conflicts by minimizing transaction costs and stabilizing the JV structure (Buckely & Casson, 1988). It should be noted that the firms

with large equity shares are more likely to be successful and therefore enjoy a better JV performance (Killing, 1983). The advantage of having majority shares can be found in the case of Sino-foreign JVs, because when foreign firms form a JV with Chinese partners, some of them have a difficult time and control appears to be a central issue. In particular, the operation of Chinese markets and management styles are completely different from other emerging markets, because China has vast land and provides greater opportunity with its enormous population (Luo, 2000).

In addition, the determination of control is associated with a degree of commitment from venture firms in their ownership structures. Yan (2000) claims that the more a parent company contributes key resources on a contractual basis, the greater its overall control and influence will be in corresponding functional areas of the JV (p.162). In his view, parent firms must commit themselves to contributing vital resources to gain control over a JV's operations. From the perspective of JV performance, Yan (2000) argues that ownership structure has a positive correlation with satisfaction about a JV, because whether a JV performed well or badly might depend on the proportion of operational inputs supplied by the parent companies. More importantly, by clarifying the venture partner's role in a JV, parent firms will have a greater chance of success (Bettina, 2003).

Despite political and military hostilities, Taiwanese JV firms must consider the Chinese legal and bureaucratic systems unfair and inefficient (Yan, 2000; Luo, 2000) in addition to other situations that may increase their levels of discomfort when doing business in China. Consequently, the need for majority shares in a JV is absolutely crucial for them, because larger shares mean greater power for decision-making or business operations (Killing, 1983). For example, the fast changing laws and regulation on different levels of government may result in different consequences for the performance of Sino-Taiwanese JVs. However, an effective ownership strategy enables Taiwanese firms to stabilise their operations and encourage Chinese partners to overcome the JV problems together.

Understandably, control in a JV is influenced by the degree of the possession of equity shares and resources by local and foreign firms. Taiwanese venture firms may have a greater tendency to adopt a large proportion of equity shares under a JV structure because it provides power over than their Chinese venture partners, but also they possess more advanced resources and experience which can bring better outcomes for Sino-Taiwanese JV formation. Therefore:

H 4. The Taiwanese seek to gain control of the IJVs in order to improve the businesses' chances of success.

H 4.1. The Taiwanese seek to gain control of the IJVs in order to function effectively within the political and legal environment.

H 4.2. The Taiwanese seek to gain control of the IJVs in order to secure their substantial financial commitments in China.

5.5.1 Importance of Strategic Management Control

A JV has a complex relationship, because both partner firms need to relinquish some control over a JV's activities to maximize its cooperative purpose (Geringer & Herbert, 1988). Hennart (1982) suggests that venture partners are more likely to utilise its resources, such as managerial and technological skills (Yan, 2000), to gain different degrees of control in day-to-day operations (Hennart, 1982). This view is addressed by Yan (2000) and Schaan & Beamish (1988), who suggest that strategic control is associated with JV operations by allocating senior managerial positions, which allows companies to safeguard their own interests and ensure the performance is consistently monitored. In particular, managers confront daily joint operations, monitoring and management, thus the need for control is inevitable. Despite ownership control in a JV structure, Geringer and Herbert (1988) found that managerial control is one of the control mechanisms that directly influence the JV performance.

An important purpose of a JV is to focus on the complementary function to lead both parent firms to achieve a wide range of goals. By contributing unique resources together, venture firms will be more successful, because they share each other's knowledge and leave the control to those who have greater expertise (Killing, 1983). Such a synergistic view of pulling resources together is clearly a good way for foreign firms to deploy their management expertise to increase their degree of autonomy in a JV system. Foreign firms in an institutional and cultural environment that is not transparent, such as in China, may have a greater advantage in the management of JV operations, while local partners provide specific local knowledge that helps to achieve optimum JV performance.

Since Taiwanese firms in China usually possess efficient and well-organised management systems (Luo, 2001), in Sino-Taiwanese JVs they can provide significant management skills for Chinese partners to meet competition in the same industry with a similar product or service. Yan (2003) found two important phenomena in the formation of Sino-Overseas Chinese JVs' management. First, she points out that in Hong Kong, Taiwan and Singapore JVs have a high frequency of visits and meetings to report and control information compared to other foreign partners. Second, they rely heavily on control emanating from personal supervision rather than depending on target setting and corporate culture (p. 504). Therefore, managerial control mixed with ownership will achieve a higher level of performance (Hu & Chen, 1994).

Apparently, it can be recognised that the greater the power of managerial control for parent firms in JV, the higher the level of satisfaction the JV will enjoy. In a JV strategic formation, many parent firms with different cultural backgrounds prefer majority equity ownership in order to dominate control for the JV's stability. Therefore, many parent firms put as many of their expatriates into key positions as possible (Kabst, 2004, p. 2) to make sure that the JV is on the right track in accordance with their objectives.

H 4.3. The Taiwanese seek to gain control of the IJVs in order to improve the businesses' chances of success to utilise well established Taiwanese managerial and business skills.

5.6 Summary

By formulating the 16 hypotheses above, the research questions were identified and addressed in this study. Each hypothesis is related to a set of variables in order to find the determinants of the strategic motives behind Sino-Taiwanese JVs. All the hypotheses are connected to factors that may determine the formation of Sino-Taiwanese JVs. A total of 16 hypotheses has been listed and discussed in this chapter. First, Hypotheses 1 to 1.5 address the strategic motive for Sino-Taiwanese JVs from economic, political and cultural perspectives. Second, Hypotheses 2 to 2.2 focus on the advantages of cultural similarities for Taiwanese firms in the context of the Sino-Taiwanese JVs. Thirdly, Hypotheses 3 to 3.3 address the importance of strong *guanxi* ties for Taiwanese firms in almost every aspect within the Sino-Taiwanese JV structure. Lastly, Hypotheses 4 to 4.3 discuss the complex issues of JV management and operation to illustrate the strength of Taiwanese firms during the collaboration process with Chinese partners. In the next chapter, the research methods will be presented in order to test these posited hypotheses.

Chapter VI Research Methodology

6.1 Introduction

This chapter will introduce the research methods the author found to be most appropriate for this topic, and explain why they are the ones chosen to present the evidence and to analyse the theory encapsulated by the main hypotheses (Patton, 2002). It will follow Neuman's (2006) seven-step structure of social research, which involves selecting a topic, focusing on the question, designing the study, collecting the data, analysing the data, interpreting the data, and informing others. This chapter will therefore begin with a discussion of research philosophy in order to identify the research paradigms most likely to produce the best methodologies. It will then describe research design and special data collection approaches in order to stress the significance of data collection techniques for Sino-Taiwanese JVs. Next it will describe the planned execution of these research methods with a focus on the difficulties of obtaining Sino-Taiwanese JVs data, as investigating the context of Sino-foreign JVs in China requires special research methods (Yan, 2000).

6.2 Research Philosophy

Philosophy and social science are interconnected. Hughes & Sharrock (1997) describe this characteristic of social science as foundationalism, arguing that true knowledge must rest upon a set of firm foundations. To retain the true value of the foundational premises they have followed, they emphasise the need to establish particular methods of investigation or techniques of data collection in order to discover the philosophical conceptions regarding

the nature of scientific enquiry. Rosenberg (1998) suggests that the relationship between social science and philosophical theories is complex and intimate, stressing that:

Something is the matter with the social sciences; probably they are not 'scientific' enough in their methods. They need to adopt methods that more successfully uncover laws or, at any rate, models and empirical generalizations, which can be improved in the direction of laws or brought together in theories that explain their applications and improve their predictive and explanatory power (Rosenberg 1998, p. 8).

Hughes & Sharrock (1997) argue that knowledge needs to be conclusively demonstrated by continuous testing and identification, which coincides with Rosenberg's (1988) research ideology, as it is through developing appropriate research methods that social scientists may distinguish causation from mere correlation. As May (2001) notes, it is imperative to establish a way for scientific disciplines to enable social research 'to understand and to challenge conventionally held beliefs about the social and natural worlds' (p. 8).

Since the nature of the social sciences is a complex issue (Giddens, 1997), it is important to focus on the research philosophy concept. This step is especially necessary for those who want to explore specific research topics (Creswell, 1998). Social research methods are a central part of the social sciences (May, 2001). Various research approaches allow social

researchers to examine data or social phenomenon rigorously in order to shed light on specific topics from broad philosophical and theoretical perspectives (Robson, 1993).

In order to explain and understand the subjective meaning of this particular research study, it is necessary to address two essential terms of research strategy which may connect data and social theory (May, 2001) These are positivistic and phenomenological paradigms. Both enable researchers to distinguish the strengths and weaknesses of their methodologies during their research.

6.2.1 Positivistic versus Phenomenological Research Methodologies

Social researchers have different aims. Generally, research methods can be categorized as either qualitative or quantitative based on their purposes, methods, and assumptions. To identify the quality of research results, it is necessary to define the research methodology based on the scientific principles before applying any research techniques (Eldabi et al., 2002). According to Hussey & Hussey's (1997) recommendations on the research methods, researchers adopting different research paradigms determine the methodology they use. Each paradigm provides different ways with different views or attitudes to find ways to understand the same subjects. Typically, two main distinctive paradigms have been represented in different research disciplines: positivist and phenomenological (Hussey and

Hussey, 1997). Table 6.1 explains the different research disciplines, showing which can be the appropriate way of exploring various types of topics.

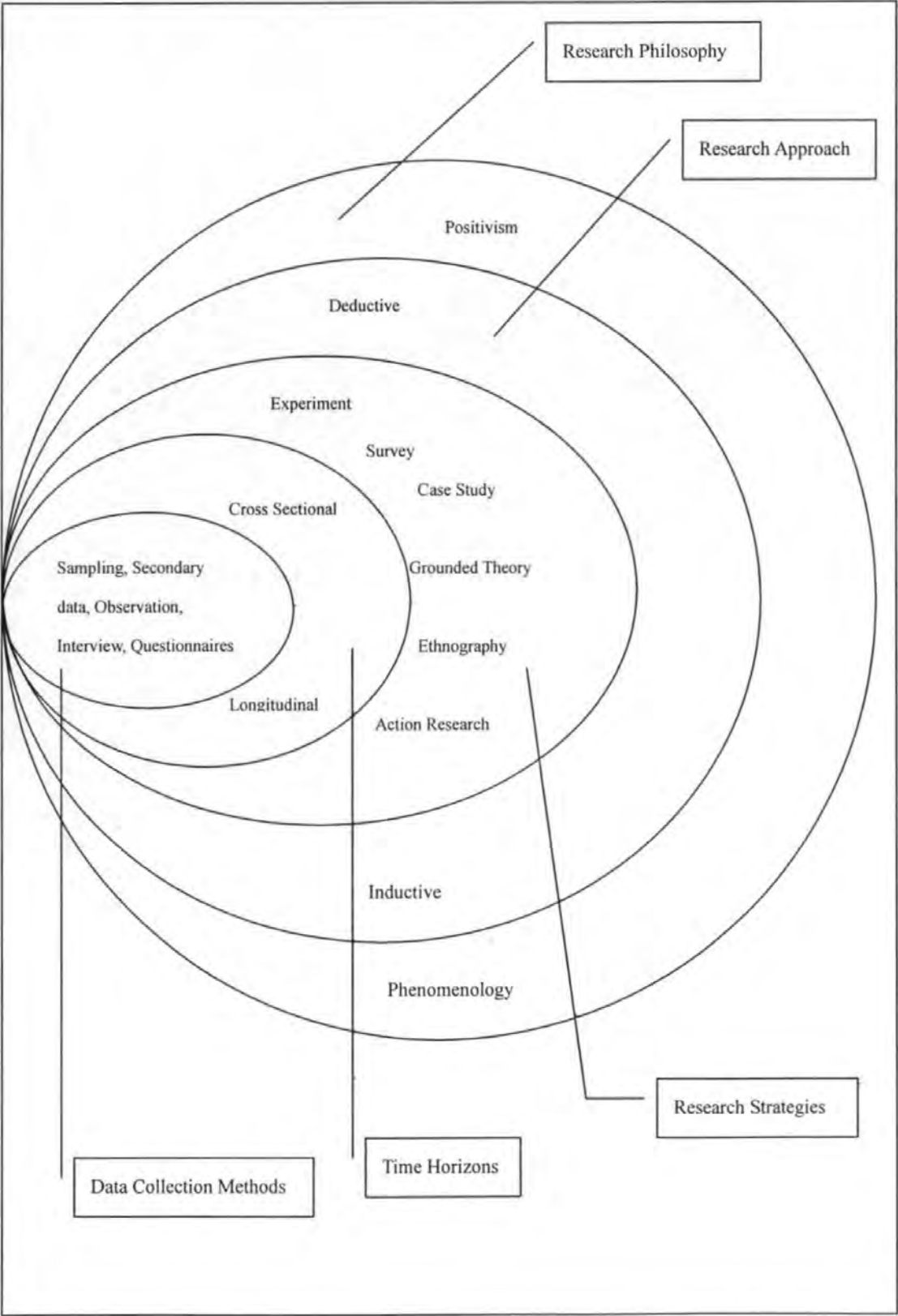
Table 6.1 Features of Positivistic and Phenomenological Paradigms

Positivistic paradigm	Phenomenological paradigm
Tends to produce quantitative data	Tends to produce qualitative data
Uses large samples	Uses small samples
Concerned with hypothesis testing	Concerned with generating theories
Data is highly specific and precise	Data is rich and subjective
The location is artificial	The location is natural
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalise from sample to population	Generalises from one setting to another

Adapted from Hussey & Hussey, 1997

Similarly, Saunders et al. (2000) suggest that the decision on the research approach has an impact on business and management research. In Figure 6.1, it explains that the different research methods can interpret the different social phenomena in order to support their explanations of human behaviour under positivistic and phenomenological perspectives for business and management research. They note that, 'if one's research philosophy reflects the principles of positivism, then he or she will probably adopt the philosophical stance of the natural scientist' (Saunders et al., 2000, p. 85). In terms of the reality that social phenomena affect human behaviour in complex ways, Saunders et al. (2000) argue that, unlike the positivist approach, phenomenologists pay more attention to discover 'the reality working behind the reality', since reality is influenced by human values and behaviour.

Figure 6.1: The Research Process “Onion”



Adapted from Saunders, Lewis and Thornhill, 2000

Broadly speaking, social science examines social phenomena using either of two opposing paradigms: positivistic and phenomenological.¹ Tashakkori & Teddlie (1998) describe the positivistic research paradigm by asserting that positivists believe there is a single ontological reality and seek the facts of social phenomena. Following this ontological debate, Hussey & Hussey (1997) suggest that the positivist approach is to emphasise the question 'what is reality?' (p. 54) in seeking an explanation of natural phenomena, whilst the phenomenologists, also called naturalists, believe that multiple, constructed realities exist.

The positivist and phenomenological paradigms also approach epistemology in different ways. Their epistemological assumptions underline the distinctions between the qualitative and quantitative research approaches. Tashakkori & Teddlie (1998) state that positivists believe that the knower and the known are independent, but according to the naturalist point of view, the knower and the known are inseparable, because in social reality the relationships between sets of circumstances and individuals are far more complex than in simple physical science. The point here is not to examine each of these paradigms, but rather to focus on which of them can provide us with the most significant advantage for

¹ Puuronen (1993) describes the distinction between applied and basic research as deriving from the natural sciences. Therefore, the basic dilemma of the social sciences stems from the paradigmatic division of social sciences into so-called positivistic and interpretative (phenomenological) paradigms (p. 2).

investigating the relationships between theoretical research and social reality (Puuronen 1993).

6.2.1.1 The Positivist Approach

As discussed previously, the aim of this chapter is to differentiate research method approaches in order to justify a specific research strategy. In the natural sciences the positivist approach involves rigorous observations that tend to lead to statistical analysis (Saunders 2000). In philosophical development research, Tashakkori & Teddlie (1998) directly assert that the positivistic paradigm underlies quantitative methods, while the phenomenological paradigm underlies qualitative methods.

Quantitative research paradigms such as positivism study 'the facts or causes of social phenomena, with little regard to the subjective state of individuals' (Hussey & Hussey 1997, p. 52). Gamson (2000) agrees with this view, asserting that:

positivists try to separate facts from values and thereby create a misrecognition of such social interests which determine what counts as legitimate knowledge, whereby subjective value are turned into objective facts (Gamson, 2000, p. 4).

Hughes & Sharrock (1997) make a similar point in their philosophy of social research, claiming that 'positivism recognises only two bona fide forms of knowledge, the empirical and the logical: the former represented by natural science and the latter by logic itself and also by mathematics' (p. 29).

Positivism, then, clearly has a strong tendency to employ the strict scientific method in conducting research and emphasises a quantifiable observation structure that leads to statistical analysis (Saunders, Lewis, and Thornhill, 1997). In other words, quantitative research methods are based on the positivistic concept. Bryman (1989) identifies several important features of the quantitative research approach. For example, the concepts of mechanism for measurement, causal relationships, generalisation, replication, and individualism are all considered from the objective point of view. Using this approach, researchers must be careful to exercise positivistic assumptions while answering their research questions, which apparently may cause them to concentrate too much on scientific or statistical observations and therefore ignore the changing pattern of their subjects. Positivists apparently do not concern themselves with other forms of logic, believing only in the power of facts to explain human behaviour and society with scientific explanations, and believing also that 'human social life was simply the result of a coalescence of forces interacting so as to produce a particular sequence of behaviour' (Hughes & Sharrock 1997, p. 27).

6.2.1.2 The Phenomenological Approach

In sharp contrast to the positivist emphasis on quantitative methods, the phenomenological paradigm stresses qualitative research methods, typically observing the meaning of 'the essence of lived experiences [to capture] the concept of intentionality of consciousness' (Creswell 1997, p. 51), which addresses human experience with its consciousness (Fouche 1993). According to Patton (2002), 'phenomenology analysis seeks to grasp and elucidate the meaning, structure, and essence of the lived experience of a phenomenon for a person or group of people' (p. 482). Hughes and Sharrock (1997) agree with Wilhelm Dilthey (1833-1911) that:

Society, a product of the human mind, was subjective, emotive as well as intellectual. What we would refer to as causal, mechanic and measurement-oriented models of explanation were inappropriate, since human consciousness was not determined by natural force (p. 98).

This paradigm reflects researchers' concerns for the life experiences of human beings. As Benz & Shapiro (1998) suggest, 'the intention of phenomenological study is to provide a description of human experience as it is experienced by the person' (p. 96). Since the nature of phenomenology is interconnected with the experience of respondents, or those studied, Bruyn (1966) states that 'phenomenology serves as the rationale behind efforts to understand individuals by entering into their field of perception in order to see life as these

individuals see it' (p. 90). With regard to this concern, phenomenological study has made contributions to discover this vital value:

... which will manage to make inquiries not only into the certainly basic areas of social-psychological concerns but also into those of the broader, socially crucial aspects of modern society in perpetual change, upheaval, and crisis (Wanger 1993, p. 61).

Through these distinctions and variations in the use of research paradigms, it is appreciable to describe positivistic and phenomenological as constituting most research approaches and perspectives. In conventional research methodology, the positivist research paradigm obviously seems most applicable to quantitative studies. Hughes & Sharrock (1997) point out that social research's most-used research instruments, such as the survey, the questionnaire, the statistical model, the idea of research as hypothesis testing and theory corroboration, all embody the formative influence of positivism. (p. 98). On the other hand, the interview research method provides the way to capture 'rich data description of phenomena' (Creswell 1997) in order to describe as specifically and accurately as possible the phenomenon being studied (Groenewald 2004, p. 5).

6.3 Importance of Research Design

Research design is concerned with turning research questions into projects (Robson 1993, p. 38). It is important to develop well-structured research processes and methods, because this can help researchers explain their research inquiry and validate their statements on the relationships between concepts during the research process (Strauss and Corbin 1998). In designing a viable research process, researchers should recognise their own abilities and problems, based on any special knowledge which allows them to gather important data related to their research interests. In particular, it is vital for this study of Sino-Taiwanese JVs in China, because the author is seeking to investigate a subject where there is no statistical data or information available from government and private sources and where the issues are highly sensitive because of special political and economic circumstances.

Kogut (1988) and Antonius (2003), for example, prefer to adopt pure empirical studies, since numerical data can help them to address their research questions and meet their objectives (Saunders et al. 2000), while Luo (2000) and Patton (2002) believe that qualitative research provides them with the most appropriate technique to address 'persons' lives, lived experiences, behaviours, emotions and feelings as well as organizational functioning, social movements, cultural phenomena, and interactions between nations' (Strauss and Corbin 1998, p. 11). Though there is no rule to indicate which research

techniques are better than others, the choice of the most appropriate research methods and methodologies to fit the topic becomes a priority in any research project.

The choice of research approach therefore depends upon consideration of the nature of the study involved. Since the purpose of this study is to identify Taiwanese investors' strategic motives for engaging in JVs and networking systems in China, to achieve this objective it seems most practical for me to utilise techniques from both the qualitative and quantitative approaches in order to provide in-depth and consistent analysis. In other words, a triangulation approach can provide a need for this research in order to meet these different objectives and to ensure valid and reliable results (Saunders, Lewis, and Thornhill 1997).

Although an approach utilising such mixed research techniques can produce the best results, it should match the research objectives of the particular study (Robson 1993). In describing the differences between these two research methodologies, Bryman (1989) suggests that:

Quantitative research is associated with the testing of theories, whilst qualitative is associated with the generation of theories . . . be viewed as a convention that has little to do with either the practice of many researchers within the two traditions or the potential of the methods of data collection themselves (p. 172).

Robson (1993) goes further and claims that it is important to develop an appropriate research approach prior to carrying out an investigation because, 'if there is an important decision to be made or problem to be dealt with, [it] would be a step forward' (p. 10). In order to develop a feasible research method in terms of this specific project, it seems to me that the triangulation method appears to be the best approach to find the motivational factors involved, considering the characteristics and problems of the topic. The reasons will be explained in the following sections.

6.3.1 Triangulation Research Approach

Conventionally, the choice between quantitative and qualitative methods seems to involve trade-offs between breadth and depth (Patton 2002), which would not be able to generate sufficient data for effectively supporting this study's validation. Liebscher (1998) emphasises that the two typical research approaches should support each other, because a quantitative research methodology is appropriate where quantifiable measures of variables of interest are possible, where hypotheses can be formulated and tested, and inferences drawn from samples to populations. Qualitative methods, on the other hand, are appropriate when the phenomena under study are complex, are social in nature, and do not lend themselves to quantification (p. 669).

The basic principle of multiple, mixed, or triangulation methods is to combine the different elements of qualitative and quantitative methods because of their complementary relationship in providing exclusive explanations when addressing research theory (Hussey & Hussey 1997; Tashakkori & Teddlie 1998). According to Denzin's (1978) definition of the triangulation research technique (Jick 1979; Connidis 1983; Hussey & Hussey 1997; Hammond, 2005), 'triangulation research methods [are] the combination of methodologies in the study of the same phenomenon', which can be seen as a useful tool to improve the validity of research, since such methods can yield comparable data (Jick 1979, p. 602).

The triangulation approach particularly suits complex research projects owing to its use of a variety of methods to collect data from different sources. In this sense, this study will follow Creswell's (2003) principles of triangulation, as his work clearly describes the three main methodological approaches towards research: quantitative, qualitative, and mixed-method (triangulation). First, the qualitative approach, being interactive and humanistic, enables researchers to provide clear and accurate pictures and to draw solid conclusions. Second, the quantitative approach enables researchers to test the influence of measurable empirical factors on the outcomes of studies. Finally, the mixed-method approach enables researchers to triangulate quantitative and qualitative data, which can reduce inappropriate certainties (Robson 1993).

The aim of combining research data collection methods within this study is to enable the author to address the significant issues of the research topic with the objective of finding the possible answers. Following Creswell's (2003) triangulation principle, the first step of this research was to begin with 8 interviews of participants in Sino-Taiwanese JVs in China to gain in-depth knowledge and a close-up view of their motivation within their complex environment. As Patton (2002) suggests, the first step of research should be to get a clear picture of its purpose prior to making any decision about further methods. Moreover, if researchers can physically be in the research place, this becomes an important step for finding out the answers to questions about the how and why of the topic.

In this particular study, it is important to obtain first-hand information, as a hostile political situation is likely to have a significant effect on the interviewee's confidence in answering sensitive questions (Creswell, 1998). More importantly, this research process can enable the author to become more thoroughly familiar with this study's central theme and to design a well-structured questionnaire for the study's next step.

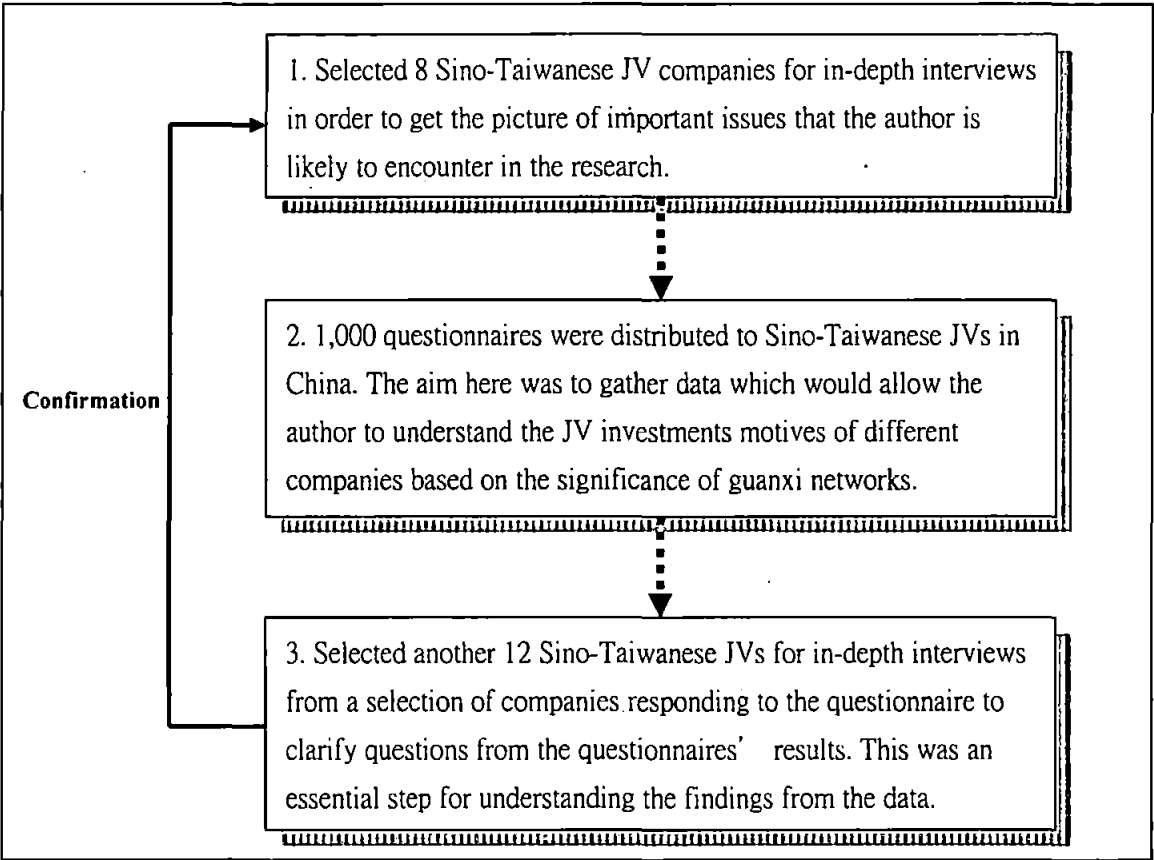
Meanwhile, the author was able to build up a trustworthy reputation and credibility through the first 8 interviews in order to allow the study to proceed to the next stage. The author therefore decided to adopt a 'snowball' strategy (Wright et al. 2002) through the process of gradually collecting important information and constructing close relationships with

significant informants. This was a practical approach to generate sufficient data, and led the researcher to more, and richer, information relating to this study.

In the second phase of the study, the author launched a survey to investigate the overall development and performance of Sino-Taiwanese JVs in a variety of industrial sectors in China. Postal survey approaches served as an important means for gathering data that contributed to the empirical analysis of the motives for forming JVs with Chinese partners.

In the last data-collection phase, the author followed Denzin's (1978) suggestion for an investigation type of triangulation designed to improve research validity and reliability. Based on the complementary characteristics of the triangulation approach (Robson, 1993), in this final phase the author finished the data-collection process by interviewing another 12 Sino-Taiwanese JV managers to clear up and confirm any confusion in responses obtained from the previous data-collection steps concerning their motivation for engaging in JVs and *guanxi* networks.

Figure 6.2: Triangulation Research Steps for Investigating Sino-Taiwanese JV Participants’ Motives



6.4 Qualitative Research Method

Qualitative research methods focus on the exploration of social phenomena and the further interpretation of more complex and interactive issues such as socio-political and historical moments (Creswell, 2003). In order to determine decision-makers’ motives for engaging in JVs, this study needed to adopt interview techniques to collect significant information through the primary research using the qualitative study approach (Robson 1993; Tashakkori & Teddklis 1998). Interview data-collection techniques are non-experimental, consist of words (Patton 1990), can obtain rich, in-depth, detailed information (Mark,

Lewis, and Thornhill 2000; Amaratunga 2002) and can discover new insights about a story (Robson 1993) from various sources, allowing researchers to gain a greater depth of understanding about a given topic or concept.

Nevertheless, interviewing is a part of field studies which can be risky and costly, but by being in the research place during interviews researchers are able to use their gestures, mannerisms, and oral feedback (Tashakkori & Teddlie 1998) to encourage interviewees to disclose more information on issues related to the research. This study focuses on a range of broad, open-ended, and semi-structured interview questions. Previous studies have shown that interviewees are more likely to accept interviews that involve filling out questionnaires, especially when they see the interview topic to be interesting and relevant to their own current work (Saunders et al., 2000). This suggests that qualitative measures can reveal the important elements in the performance of JVs (Anderson 1990). Interviews offer the advantage of the possibility of modifying one's line of enquiry, following up interesting responses and investigating underlying motives in a way that postal and self-administered questionnaires cannot (Robson, 1993).

Essentially, interviews allow researchers to follow up certain responses from questionnaires in order to investigate particular issues or topics further. In addition, face-to-face interviews were critical for this study, as they initiated important relationships

between the interviewer and interviewees (Cross & Parker 2004). Accordingly, this study was able to extract sufficient information from those interviews to be able to transcribe it into meaningful data sets for explaining the specific social phenomena being examined. To a large extent, many researchers have used such different approaches to collect useful information based on the nature of their research objectives and questions.

More importantly, because of the political sensitivity and threat of conflict involved in studying Sino-Taiwanese JVs, the respondents in this study were more likely to prefer the personal interview method to written and mailed questionnaires as a means of providing information, owing largely to the absence of a sense of security. Being a Taiwanese also provide an advantage for the author to access crucial information of this study. Therefore, the interview method was appropriate for exploring the significant reasons of Taiwanese firms for engaging in JVs in China, especially their *guanxi* networks application, which could potentially lead this study to more promising findings.

6.4.1 Semi-Structured Interviews

Robson (1993) notes that three types of interview styles can help researchers design the most appropriate structure for conducting interviews: structured interviews, semi-structured interviews, and unstructured interviews (p. 231). In structured interviews, interviewers design a rigid set of questions to ask interviewees, using identical questions in

the same order to enable valid statistical analysis. Semi-structured interviews contain a set of open-ended questions in order to encourage respondents to provide their own ideas as much as possible for data analysis. Unstructured interviews do not have a specific set of questions asked in a predetermined order, allowing interviewees to respond to a broad range of questions during the interview process. Having identified the strengths of each of these types of interview technique, this study decided to use semi-structured interviews owing to their usefulness in facilitating the understanding of the relationship between variables in an exploratory and explanatory study and for discovering interesting phenomena related to the research topic (Saunders et al., 2000). All the interview questions were originally written in English and then translated into Chinese. In order to increase clarity and reduce ambiguity, the interview questionnaire was tested by several members of the Taiwanese Entrepreneurs Association in Beijing, and then modified before the author actually carried out the field study in China, as an appropriately designed questionnaire was more likely to encourage interviewees to express their points of view.

To accomplish the first step of data collection, the author designed a semi-structured interview covering several areas involved in this study. These were: the strategic motives behind JVs, guanxi networks for selecting JV partners, inter-organisational management, decision-making, cultural similarities and dissimilarities, and general JV performance.

Importantly, these topics could generate relevant data and information for the preparation of the next phase, that of the quantitative data collection process.

The main reasons for choosing the semi-structure interview was that respondents could view some questions as politically sensitive and might answer them reluctantly to protect themselves from accusations if the interviews engaged in discussions of government policy, but the interviewees also needed to be encouraged 'to be able to answer more on their own terms and provide a greater structure for comparability' (May, 2001). May (2001) also notes that he personally preferred interviews to written questionnaires, as they allowed him to exchange information, although a tape recorder was not always permitted during the interviews.

6.4.2 Qualitative Analysis (NVivo)

In order to make sense of the data and seek the patterns or themes from it the author used a specialist qualitative software programme called NVivo. NVivo provides rigorous qualitative data analysis and speeds up the analytical process. In noting that software is a powerful tool for researchers to use for managing and analysing qualitative data, Patton (2002) suggests that:

Qualitative software programmes facilitate data storage, coding, retrieval, comparing, and linking. They help researchers to decide what things go together to form a pattern, what constitutes a theme, what to name it, and what meanings to extract from case studies (p. 442).

Following this reasoning, this study benefited from the NVivo software, which emphasises the importance of data-reduction and sense-making in capturing the essence of human behaviour.

NVivo software is designed to integrate higher qualitative research analysis in order to meet researchers' requirements, and can easily collect, organise, and analyse information to help with formalizing specific theories or concepts. Especially, ideas can be recorded using rich text editing of documents, memos, and thoughts, which can be located at nodes without coding. Walsh (2003) comments that NVivo's flexibility and benefits make it her 'old loose-leaf binder', which could help researchers to restore data in one place and to link documents together for easy access.

The author therefore chose NVivo as the most appropriate programme, as it provided help in clarifying and identifying information this study gathered about the motives of those engaging in Sino-Taiwanese JVs and the implication of guanxi networks for this

phenomenon. The discussion was therefore taken to transcribe the interview data into NVivo for further analysis as a means of organising the complex interview information systematically and consistently. In order to integrate this study's interview data and documents into NVivo, it was necessary to break the raw data (whole plain-text format) into segments to correspond with the specific research questions involved in each section of the study's topic. The author then consistently transcribed the field notes from the interviews into NVivo documents to produce a meaningful coding process. This coding process can be seen as a research analytic step, as it involved much more than just connecting a name with a passage of text (Gibbs, 2002). It was also a way for me to deal with the massive amount of raw data, making this study more systematic and creative and helping me to identify and develop related concepts (Strauss and Corbin 1998).

Since the coding process becomes a kind of re-contextualization (Gibbs, 2002), the author coded the research data into three significant aspects. These were: 1) the motives for engaging in JVs; 2) cultural influences and the application of guanxi networks in setting up JVs, and 3) the role of strategic management and ownership systems in the performance of JVs.

6.4.3 Interview Data Collection Process

Unlike other Sino-foreign JV studies, in which researchers can obtain most of their data from China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) or local (provincial and municipal) Chinese Chambers of Commerce (Beamish & Wang 1989; Zhao & Zhu 1998; Li, et al. 2002; Child & Yan 2003), no comprehensive data or information are available from government agencies in Taiwan and China² for Sino-Taiwanese JVs. For this reason, in order to find appropriate interviewees, the interpersonal relationships with family members, relatives, and close friends were utilised to connect with Sino-Taiwanese organisations. To a large extent, this process enabled me to develop information networks for the next step of data collection, as each interview not only collected data, but also produced leads for more sources of information about Sino-Taiwanese JVs.

The aims of qualitative research focus on the comparison between interview cases, because each interview case encompasses a thick and rich body of description (Patton, 2002). The author conducted 20 Sino-Taiwanese JV interviews from different industrial sectors to explore the in-depth story of the organisations involved. Where possible, these interviews involved the senior managers who have the most experience within the organisations,

² Since the Taiwanese government imposes several restrictions on direct investment in China, most Taiwanese firms engaged in Chinese JVs are likely to register in other countries to avoid serious sanctions (please see Chapter 1 for more detail).

especially as this facilitated the incorporation of full site visits with the interviews. The first 8 interviews took place before the author carried out the postal survey in accordance with the principle of triangulation used in the study's approach to data collection.

The semi-structured interview format was employed in order to encourage the interviewees to offer in-depth detail and prolific information about their motivation as Taiwanese investors and their involvement with guanxi networks. It should be noted that the interview was tested before conducting the first set of 12 interviews in order to clarify and rectify potential problems that might hinder the data collection process, such as limited time, sensitive issues, and the cost of conducting the interviews.

The results of the first interviews indicated that the author certainly gained more clues and information about what areas needed further investigation and how to avoid ambiguous questions and embarrassing situations. Each interviewee agreed that their company's background information and financial data could be used for reference, but that their company's identity must remain anonymous because of the hostile political situation between Taiwan and China. Most of those interviewed were reluctant to supply their companies' annual reports owing to the size of the firms and confidentiality requirements. Each of the interviews lasted about 90 minutes. The detailed notes were taken, as none of the interviewees allowed their interviews to be audio-recorded because of the danger of

possible accusations of espionage-conspiracy activities involving Taiwan and China. The author encouraged all interviewees, however, to provide detailed information by guaranteeing them anonymity. Still, in many cases they checked my student identification, passport, and university endorsement letter to ensure the purpose and goal of the research were as stated.

Concerned about the political situation between Taiwan and China, managers from Sino-Taiwanese JVs were more likely to agree to be interviewed with an assurance of anonymity rather than to complete a written questionnaire, especially when they perceived the interview topic to be interesting and relevant to their current work (Saunders et al., 2000). The identities of the companies of those interviewed have therefore been kept anonymous. The companies studied ranged in size from multinational corporations (MNCs) to small and medium-sized enterprises (SMEs). The interviewees were selected on the basis of being representatives of Taiwanese parent firms in Sino-Taiwanese JVs such as senior managers, company executive officers, or managers with special expertise in JVs.

6.4.4 The First Interviews

The first interviews were originally scheduled for July 2003. Unfortunately, the Severe Acute Respiratory Syndrome (SARS) virus was spreading rapidly through both Taiwan and China at that time and the interview had to be rescheduled to February 2004, requiring the

author to re-connect with government officials, research academics, and Sino-Taiwanese JV managers to access every possible information resource. The data was mainly collected from the senior managers of each pre-selected Taiwanese JV parent companies via semi-structured, in-depth interviews to provide responses with reliable information. With few exceptions, the interviewees answered in Mandarin, the exceptions preferring to speak in the Taiwanese dialect.

The first interviews were problematic for two reasons. Increasing political tension between Taiwan and China had affected the Taiwanese executives' willingness to offer any opinions about their individual JV's performance and development during the interviews, and half of the interviewees were based in Shanghai and Beijing, requiring me to spend a significant amount of time travelling between these two cities and between them and the U.K. Since the interview respondents were introduced to me through family members, relatives, and friends, they were willing to spend about 60 to 90 minutes answering the prepared questions, depending on their personal schedules and circumstances. The interviews often continued through lunch and dinner, and they generously offered more information about their experiences and insights regarding Sino-Taiwanese JVs. During the interview data collection, the author used a question check-list to ensure that the respondents had answered all the questions. The respondents were, meanwhile, free to add further opinions and information, and in some cases the author conducted a follow-up

discussion in order to explore additional explanations and to confirm some answers for this study's hypotheses. This kind of relationship bonding reflects the importance of the Chinese guanxi context.

6.4.5 The Second Interviews

The second set of interviews was carried out in May 2005 after completing counting the feedback from the postal survey. By doing so, the author could investigate some critical points concerning Sino-Taiwanese JVs not identified in the first interviews and the survey questionnaire. More importantly, the author was at the same time able to confirm some findings about Sino-Taiwanese JVs. The respondents' statements in the second interviews were valuable and significant for qualitative data analysis and hypothesis confirmation. For instance, the author encouraged participants to express their views on the importance of guanxi networks in relation to the partner selection process in their JV's strategy, especially when the political situation had constrained the Taiwanese firms' abilities to do businesses with Chinese partners.

Interviewees were intentionally chosen on the basis of being senior managers or company executive officers, because they made the important business decisions and could reveal the true impetus behind their company's JV strategies in relation to the importance of guanxi networks between Taiwanese and Chinese partners. In order to increase interview

validity and reliability (Creswell, 1998), the second set of interview information was used to cross-validate findings, patterns, and conclusions (Patton, 2002). In keeping with this process, the data was carefully analysed from the second set of interviews to reveal those JV and networking motives for which the specific information and data were unavailable, and in which the Taiwanese firms' indirect investments accounted for a large percentage of Taiwan's total foreign direct investments in China. An analysis of this information will be presented in the next chapter.

6.4.6 Participant Observation: Interview Data Collection

In addition to the advantages of interview discussed earlier (p. 242), the significant benefit for the author is that those interviews have provided a chance for the author to observe how guanxi networks maintain and cultivate between Taiwanese and Chinese partners which can further support the hypotheses in this particular study. As Saunders et al (1997) point out in the primary data collection process, 'observation enables the researchers to share their experiences by not merely observing what is happening but also feeling it' (p. 219). Since the primary observation technique contains 'seeing' and 'listening' elements (Delbridge and Kirkpatrick, 1994), which helps the author to understand the dynamic guanxi behaviour, reactions and environments in the Sino-Taiwanese JV formation.

Because observation experience provides a valuable source of data to explain the importance of guanxi role for Taiwanese firms that the author's identity as a researcher was revealed to make all participants felt more comfortable in order to gain the trust of managers and insight view of guanxi development within the JV formation. For example, in a special circumstance after the author finished the interview with deputy manager of STJV 10, it was surprise that the author was invited for a business dinner to continue the interview conversations about the importance of guanxi role in the Sino-Taiwanese JV with both Taiwanese and Chinese managers. In other instance, during the interview of STJV 14 the author was joined a special lunch with Taiwanese and Chinese staff and experienced how does the guanxi relationships build up through the Chinese drinking culture. Clearly, it can be said that the observer's (author) nationality has an significant impact on the data collection process because it provides a comfortable position for the Taiwanese interviewees to explain those important factors of forming a JV with Chinese partners. On the other hand, this may present a problem for some researchers from different countries because of the political sensitivities among the cross-straits (see p. 249).

6.5 Quantitative Research Method

Quantitative research focuses on measuring instrumental test items, survey questions, or other measurement tools (Patton, 2002) in order to seek causal determination, and facilitate predictions, and the generalisation of findings (Hoepfl, 1997). Since the objective of this

study is related to both understanding and measuring the motives for engaging in Sino-Taiwanese JVs, the author sought to exploit the advantages of the quantitative approach to generate a large number of cases for statistical comparison through aggregated data and information. Given this study's time and budget constraints, it was logical to select a self-administered six-page postal questionnaire to investigate the specific research topic. Because questionnaires can reflect the goals of studies, they can provide consistent benchmarks (Bryman, 2001) by collecting large amounts of data with specific purposes (Antonius, 2003). Bryman (2001) identifies three major reasons for utilising quantitative research measurements. These are: 1) that they allow researchers to discover the variation in people's characteristics; 2) that they provide a consistent instrument for gauging differences; and 3) that they provide more precise estimates of the degree of relationships between concepts. Since quantitative research has its origin in the positivistic tradition (May, 2001), data from quantitative methods represent strong evidence, and hence increase the validity and the reliability of research studies.

6.5.1 Postal Survey Design

The aim of the empirical part of this study was to make an exploratory investigation of the strategic motives of Taiwanese companies for engaging in JVs in China. It was important for me to investigate directly by a postal survey, as no previous survey had been made of the issues involved. Antonious (2003) proposes a survey procedure identifying six steps for

completing the survey process. This served as a guideline for me once the survey phase of the study had commenced. The six steps are the composition of the questionnaire, the composition of the codebook; the determination of the sample; the collection of the data; data entry, organisation, presentation and analysis; and the interpretation of results.

Consistent with this approach, the function of the postal survey in the context of this study is its ability to express much meaningful, in-depth detail providing the advantage of allowing for later interpretation. In accord with the previous literature on JVs and Chinese networking relationships (*guanxi*), the author utilised a semi closed-ended questionnaire structured in both Chinese and English versions. Each respondent was asked to rate each influential or significant factor in a five-point Likert scale set from 'not a reason' (1) to 'very important reason' (5). The researcher designed the questionnaire in order to make understanding the method of measurement easier (Ali K & Eggert 1999). Pre-test interviews with several managers suggested that using a short questionnaire was necessary to maximise both data accuracy and the response rate.

The final version of the questionnaire concentrated on four main focus directions. These were: (1) the firm's current information about the JV, (2) cultural influences, the dynamic of its *guanxi* networks, (3) control and management, and (4) JV performance. To avoid a possible respondent bias stemming from the respondents' entry mode, the author decided to focus exclusively on the JV's Taiwanese parent firms. In the questionnaire, each of the

categories was measured by several factors for examining the relationships among all the variables regarding the postulated propositions. The author measured most of the questions on a five-point Likert scale in order to provide what reasons had influenced the Taiwanese firms to engage in a Sino-Taiwanese JV, to evaluate each venture’s operations and performance according to the collaboration’s objectives, and to find out the importance of cultural similarities in Sino-Taiwanese JVs despite the history of political conflict between China and Taiwan.

The content of the questionnaire was basically divided into seven main parts which closely related to the Sino-Taiwanese IJVs’ motives. These variables are summarised in Table 6.2.

Table 6.2: The Variables of Sino-Taiwanese Joint Ventures

Central Theme	Measurements
Company’s basic information and its entry strategy	size, initial investments, number of employees, previous investment experience, industrial sectors, percentage of ownership, duration of JV contract, and types of Chinese partners
Economic motivational factors on a five-point Likert scale ranging from ‘5: strongly agree’ to ‘1: disagree’.	pull factor (size of China’s market, costs of investment, availability of skilled labour, financial assistance from home country, infrastructure system in host country, and other special economic treatments) and push factors (global economic downturn, traditional manufacturing industry, its inability to survive in the Taiwan environment, limited expand ability of the domestic Taiwanese market, environmental laws, decreasing exporting orders, high costs of acquiring raw materials, competitiveness in every sector of industry, appreciation of Taiwanese currency, high costs of human resources in Taiwan, lack of support from government, and lack of financial support), as well as partner’s competitive advantages (lower overhead investment, access to local market, access to partner’s distribution channels, achieving economies

	of scale, link with suppliers, using partner's facilities, using partner's technological capabilities, overcoming laws and regulations, partner's relationship with governments, lower political risks, support from local financial institutions, access to raw materials, and recruitment of skilled labour)
JV's general performance on a five-point Likert scale ranging from '5: strongly agree' to '1: disagree'.	tangible performance (gross profit margins, return on total assets, return on equity, sales turnover, rate of growth of sales, market share, brand name recognition, shareholder value, export targets, and labour productivity) and intangible performance (partner's working relationship, product quality control, research and development, achievable joint goals, enhance competitiveness, developing foreign and local markets, customer service)
JV's managerial decision-making Five-point Likert scale: '1: Taiwanese parent firm', '2: Taiwanese subsidiary', '3: Taiwanese and Chinese jointly', '4: Chinese subsidiary', '5: Chinese parent firm'.	authority towards strategic operation (investment costs, capital budget, sales target, principal policy, production process, product quality control, management system, product research and development, manufacturing process)
Local institutional and market environment five-point Likert scale ranging from '5: very important reason' to '1: not a reason'.	market context (lack of information, inefficient regulation promulgation, ineffective regulation implementation, inapplicable regulation nationwide, constant changing of laws and regulations). Institutional context (economic preferential treatments, financial assistance, free currency exchanging, reduced political risks by working with governments, active promotion of local investment environment, inefficient bureaucratic system, and serious corruption)
JV's commitment between partners five-point Likert scale ranging from '5: very important reason' to '1: not a reason'.	willingness to send managers and engineers to local operation on a long-term basis, provide training scheme for local employees, transfer of technological skills and knowledge to local operations, establishing local R&D facilities, extending the scale of local operations, yielding full managerial responsibility to local partners, and providing financial assistance for viable projects
The significance of cultural relationship between venture partners five-point Likert scale ranging from '5: very important reason' to '1: not a reason'.	cultural similarities (seeking partner via guanxi, advantage of speaking same language and sharing similar cultural background, ease in building up trust and personal relationships, familiar Chinese hierarchical structure, similar communication style, enhanced welcome by local firms, guanxi an important factor in JV, understanding local employees' achievements

6.5.2 Data Collecting Process

The survey data was collected during the summer of 2004 in China. The survey sample was selected from 2003 and 2004 the *Directory of Taiwanese Businesses in China*. The questionnaires were actually distributed in July 2004 to such key major cities in different provinces as Beijing, Shanghai, Tianjin, Nanjing, Suzhou, Dalian, Xiamen, Shanzen, Hainan, Zhuhai and Guangzhou, and across various industrial sectors, such as telecommunications, natural resources, auto, steel, electronic, plastic, textile, petrol & chemical, food & beverage, biotechnology, pharmaceutical & health, service, shipping, transportation, trade, investment & financial, agriculture & horticulture, wood, and so forth. All survey questions were composed of five-point Likert-scale items with a closed-ended structure, making them clear and easy for the respondents to answer.

The author conducted a pilot test with selected members of the Taiwanese Entrepreneurs Associations in China to increase the questions' validity and reliability (Saunders et al., 2000). From the Taiwanese parent firms' perspective, it was important to obtain homogeneous data and crucial to identify their original motives for engaging in JVs and using guanxi networks in forming their JVs. The main advantages of using a postal survey were its consistency and low cost (Tashakkori & Teddlie 1998), which allowed me to investigate the overall performance of Sino-Taiwanese JVs in China systematically. Prior to mailing the survey questions to the JVs' parent firms, the author sent introductory letters

to explain the study's interest in studying Sino-Taiwanese JVs. Given the expectation of a low response rate, the author also sent questionnaires to 40 chairmen members of the Taiwanese Entrepreneurs Association in China, as they were likely to have more accurate information about local members or communities. The questionnaire was constructed in both Chinese and English versions; however, only the Chinese version of the questionnaire was distributed to the selected Taiwanese enterprises conducting business in China.

Respondents were asked to identify the perceived relative importance of JV motives in each category to show the particular factors determining the Taiwanese parent firms' decisions to engage in JVs in China. Two months after the initial mailing, the author sent reminder letters to non-respondents, and then faxes if necessary. Anonymity was assured, because of the hostile political relationship between Taiwan and China. The author believed that the managers were under a certain degree of pressure to answer in certain ways.

6.5.3 Sample Selection

Data collection in emerging markets is a difficult task (Wright et al., 2002). In order to select the appropriate sample data before distributing questionnaires in China,³ the author had sought help and support from Taiwan's Ministry of Economic Affairs and Investment

³ Neuman (2006) suggests that appropriate sampling can significantly reduce travel costs, particularly in a large geographical area, as well as help to obtain accurate data.

Commission (MOEAIC) and such Chinese central government agencies as Ministry of Foreign Trade and Economic Co-operation (MOFTEC), and Chinese state, local, provincial, and municipal governments, as well as the Taiwan Affairs Office of the State Council and the Taiwanese Entrepreneurs Associations in China to provide complete Taiwanese company investment data, especially for Taiwanese JV firms in the Chinese market⁴. Unfortunately, this data is unavailable or generally unusable; for example, the MOEAIC only had records for those Taiwanese businesses that were officially registered with and approved by the Taiwan Ministry of Economic Affairs. Additionally, the available data from MOEAIC did not distinguish the type of investment strategies Taiwanese firms had used, even though they had noted their FDI entry mode. This was a way to avoid the Taiwanese government's investigations under its cross-strait economic strategy.

The lack of official data might explain why no current study related to Sino-Taiwanese JVs exists. One officer from MOEAIC explained to the author that due to this complex situation there are too many Taiwanese investors in China, and most of them have not yet registered, or do not want to register, with MOEAIC when moving their businesses to the Mainland. This is because those Taiwanese investors want to avoid punishment by the Taiwanese government and enjoy more tax holidays by registering their businesses in such

⁴ Child & Yan (2003) found that they could often obtain IJV information and data from China's MOFTEC and business journals, or chambers of commercial departments of foreign embassies. However, this approach cannot apply in Taiwan's case because of the political situation.

third countries as Hong Kong and the British Virgin Islands. In the cases of those businesses who did register with MOEAIC, however, most of the information available was either out of date or incorrect, owing to the complexity of their investment strategies in China.⁵

Furthermore, this study's data collection was heavily influenced by an intensification of hostility in the relationship between Taiwan and Mainland China as well as the incremental intelligence-gathering activities⁶ between the two countries, which made investment data significantly more difficult to obtain. Although some data could be acquired from the relevant government agencies, they were either confidential or stored outside the organisations. For example, the Taiwanese Affairs Office of the Mainland State Council only provided consulting services for legal issues in relation to Taiwanese firms in China and therefore did not maintain economic records.⁷

The most accessible way to acquire Sino-Taiwanese JV data, therefore, was through the help of local Taiwanese Business Associations in the P.R.C. There are more than 80 Taiwanese Entrepreneur Associations in China.⁸ Members of those associations share their

⁵ Brief interview with government offices from MOEAIC in 2003.

⁶ Psychological warfare between Taiwan and China had escalated, as Beijing had announced the arrest of 24 alleged Taiwanese spies, in addition to 19 mainlanders involved in these cases. International CNN. Com. Dec 23rd, 2003, Information Available via Internet:

<http://www.edition.cnn.com/2003/WORLD/asiapcf/12/23/taiwan.spies/>

⁷ Interview with Mainland Affairs Council carried out in 2003.

⁸ According to information from the Straits Exchange Foundation of Taiwan Businessmen (SEFTB), because

investment experiences and tips with each other to overcome the potential risks and challenges of the Chinese market. Typically, they serve the functions of stabilising the marketplace and building the foundations of trustworthiness (Hamilton, 1985, p. 203).

Given major assistance from the Taiwanese Entrepreneurs Associations in China, the author mailed questionnaires to the chairmen of each of these associations with the intention of increasing this survey's response rate.

The final resource the author attempted to access was China's MOFTEC database, which contains the most complete record of Sino-Taiwanese JVs. Those data, however, are classified as confidential and protected by high-level government authorities. The most reliable source was therefore the published *Taiwanese Businesses in China Introductory*, which encompasses all the current registered Taiwanese businesses in China. However, it included different types of FDI strategies, a problem which could be overcome by the content of this study's JV questionnaire and investigation into specific industries (Kogut 1988), such as oil refining, forestry, mining, agriculture, telecommunication, chemical, or others.

Taiwanese business organisations lack support from the Taiwanese government. Therefore, the Taiwanese Entrepreneurs Associations became an important bridge for Taiwanese businessmen staying in the PRC for communication with local Chinese government agencies for dealing with every type of issue.

6.5.4 Quantitative Data Analysis (Factor Analysis)

The author then adopted the Statistical Package for the Social Sciences (SPSS) software for this study's quantitative data analysis in order to obtain meaningful analysis of the data accumulated. Since a central aim of this research study is to discover what motivates Taiwanese investors to choose to invest in JVs in China and to use interpersonal networks in doing so, those posited variables needed to be carefully measured, since they were strongly connected to human behaviour and experience. The research procedures recommended by Kline (1994) and Rummel (2002), suggested that researchers should use factor analysis to validate the measurements of research studies and to test the connections between variables through proposed hypotheses. Because the nature of this study involved large sets of variables, the author followed Pett et al.'s (2003) suggestion to confront the masses of qualitative and quantitative variables in order to simplify such complex sets of data and systematically analyse them, because:

Unlike the t test or ANOVA, it is not a test of differences between groups of subjects. Rather, factor analysis represents a complex array of structure-analysing procedures used to identify the interrelationships among a large set of observed variables and then, through data reduction, to group a smaller set of these variables into dimensions or factors that have a common characteristic (p. 2).

Additionally, Child (1990) points out that the goal of using factor analysis is to confirm or test hypotheses, in particular to study them rather than to create them, which is the purpose of this study. This data-simplification concept of factor analysis can be explained by its two important functions: exploratory and confirmatory. The exploratory function involves trying to discover the interrelationships among a set of variables used in factor analysis; the confirmatory aspect involves choosing certain variables to confirm a predetermined or hypothesised structure.

Since the purpose of this study is to identify the relative importance of the motives of Taiwanese investors in forming JVs in China in terms of their managerial and operational performance, utilising the factor analysis technique not only helps the author to clarify complex variable relationships, but can also make useful contributions to this research findings, as the specific factors analysed could similarly correlate to illustrate their interrelationships under the hypothetical scenarios. The study's questionnaire structure yielded 114 variables which needed to be analysed to discover their correlations so they could be sorted into groups in order to provide useful and reliable evidence to enable the interpretation of their significance toward the study's objectives. This process revealed three significant indications of the meaningful value of this research (Schmidt and Kochan, 1977).

First of all, the relevant variables were selected for analysis. The correlation matrix analysis table was produced to represent the interaction relationship between pairs of variables in order to understand their unique relationships and then to test a number of hypotheses and theories. By doing so, the author was able to extract components as a data reduction method which could eliminate the variance of the less important factors⁹. Following Everitt's (1994) factor analysis study, he recommended that factor loadings greater than 0.4 were considered as significant for further analysis. Then, in the factor extraction process, which was the necessary process of choosing a correct number of factors (Kline, 1997), listed the most significant variables according to the nature of the study. Finally, factor rotation with a varimax process changed the factor loadings and the meaning of the factors with Kaiser normalisation, offering a clear picture of factor structure and pattern for better interpretation.

6.5.4.1 Correlation Matrix Analysis

Robson (1993) observes that the advantage of correlation relationships is that they 'bring out possible interactions between variables' (p. 131) through the correlation matrix, which combines two variables into one factor from a different number of variables. In other words, there might be an entirely different relationship between scores on the two variables.

9. Extracting component from a correlation matrix is an interactive procedure that consists of repeatedly refining the solution to find a suitable eigenvector an associated eigenvalue from which the factor loadings for a factor analysis can be obtained (Pett, Lackey and Sullivan, 2003)

If possible, factors are extracted, and then the correlation matrix helps researchers to determine the number of noteworthy factors (Thompson, 2004). Therefore, a correlation matrix table of motivational variables for Sino-Taiwanese JVs can be created in which the strong factors can be examined and provide significant data for analysis. Empirically, the correlation table can help me to test different types of hypotheses and identify salient JV motives for Taiwanese parent firms through their correlation relationships.

Following Bryman's (2001) correlation rule, the author only selected factor results of 0.4 or above in order to increase the level of internal reliability during the examination of the correlation matrix table. Since there were 94 interval-level variables to be analysed for their relationships with each others, the computations of factor analysis allowed the author to generate random data for 94 variables with 8836 cases (for example, economic, political, and cultural factors) for each variable (see Table 7.15, p.). In addition, a communalities table would also be provided at the same time, because it could explain the percentage of variance in given variables by all the factors.

6.5.4.2 Factor Extraction Process

The main feature of factor analytic techniques focuses on data reduction for the number of variables and detecting the relationships between variables in order to classify variables (Thompson, 2004). Hence, the application of factor analysis reduced the research variables

in order to find their interrelationships among the large number of variables present, and thus facilitate the investigation of different dimensions of this research topic. The factor extraction feature determines how many possible components should be retained in the final solution (Pitt, et al., 2003).

As Russell (2002) notes, the most frequently used extraction methods should refer to principle components analysis, because this tends to 'reproduce the variance or information in the sample data, rather than the population' (Thompson, 2004, p. 37). The extraction process in factor analysis not only shows the number of factors (eigenvalue), but also determines the number of factors to be retained for further analysis. Pett, et al. (2003) note that with a small number of variables the analysis may not reveal the real factors from data set, but that if a large number of variables are present, it is highly likely to produce reliable factors. Additionally, in the table of extraction of factors where factors have eigenvalues greater than 1, which can represent a close relationship with the subject being tested, it could help researchers to interpret the relationships between important factors and their variables. Along with the extraction process in factor analysis, scree plot graphs would be provided. These can not only summarise the importance of the factor extraction process, but also provide the researchers with the best solution for selecting the correct number of factors (Kline, 1994).

6.5.4.3 Factor Rotation

Factor rotation in factor analysis involves moving the factor axes measuring the locations of the measured variables in the factor space so that the nature of the underlying constructs becomes more obvious to the researchers (Thompson, 2004). The factor rotation process probably can make empirical study more clear. Typically, it is usually essential for research to interpret complex studies with huge data sets. Thompson's (2004) factor analysis study identified two essential types of factor rotation process in order to make a clear interpretation of a data set: orthogonal rotation and oblique rotation. Orthogonal rotation means that the 90-degree angle between the two factors remained still during the rotation process, and the new axes are also orthogonal to each other (Thompson, 2004).

Within the orthogonal rotation method the varimax technique, developed by Kaiser (1958), is the most commonly used statistic package. Varimax maximises the differences between high and low loadings on a factor to simplify the unrotated factor loading matrix (Pett et al., 2003). In contrast to orthogonal rotation, oblique rotation refers to situations in which axes between factors cannot remain orthogonal during the rotation (Abdi, 2003). Whatever rotation processes were chosen, both rotation methods can help researchers to interpret the original factors with less variance. Not only the rotated components matrix can help researchers to interpret data, but also a Scree Plot diagram can be created to show where

the curve point starts to drop or flatten, which can be seen as factorial litter or scree, meaning a lesser degree of importance of the variables in the hypothetical situation.

In conclusion, the triangulation research method has been an important approach enabling this research to meet its research objective. In qualitative research method, NVivo software programme was selected to help the author to analyse and interpret the interview data systematically and rigorously. On the other hand, in the quantitative research method, the SPSS software package was chosen to examine relationships between various variables, which were collected and identified through the questionnaires. Using both research techniques will not only make sense to use both research methods to find out the possible strategic JV motives, but it will also lead to greater confidence in the research findings.

6.6 Summary

This chapter examines the issue of research methodology and explains the importance of the data collection and analysis process for investigating Sino-Taiwanese JVs, i.e. as a means of increasing the research findings' validity and credibility (Sapsford & Jupp, 1998).

The complex relationships between Taiwan and China suggest that the triangulation research approach is the appropriate research method for an investigation of the strategic motives behind Sino-Taiwanese JVs. This is because it encompasses both qualitative and quantitative research techniques to collect and analyse different sources of information in different circumstances.

The author has thereby taken two research methods into account to ensure the reliability of my research findings. On the one hand, the qualitative approach has been used by means of semi-structured questionnaire interviews with Taiwanese expatriate managers who have experience of managing Sino-Taiwanese JVs to obtain the good reliable data supported by in-depth information (Mark, Lewis and Thornhill, 2000), to find out new insight of story (Robson, 1993). On the other hand, quantitative data has been gathered through mail survey (raw data) and carefully examined via factor analysis to identify four major research directions: (1) economic, (2) political, (3) cultural and (4) JV performance to measure and analyse their relationships and help us to draw meaningful conclusions.

The data was collected at three stages through both interview and questionnaires. First, the author began with an interview strategy to explore possible JV variables for Taiwan's venture firms. Meanwhile, the author also established our networks with people who have knowledge or information about Sino-Taiwanese JVs in China, since this data is not available from consultancy sources in China. Second, after identifying the possible variables, the author distributed 1,000 questionnaires to Taiwanese firms based in China and specifically targeted Sino-Taiwanese JV companies. Third, 6 months later the author carried out the second phase of interviews both in China and in Taiwan to clear up some residual ambiguities and to obtain more information from different companies. Once the author completed the data collection, two computer software packages were used to help me analyse the relationships between those variables that the author had identified in Sino-Taiwanese JVs: NVivo and SPSS. In the next chapter, the author will describe the data results and explore the relationships between these variables.

Chapter VII Research Data & Statistical Approach

7.1 Introduction

This chapter will discuss and analyse data results in order to describe the current performance of Sino-Taiwanese JVs in China. The results of personal interviews provided an insight into many important issues related to Taiwanese investors' motives for undertaking JV formation, as well as the instrumental usage of guanxi networks. After rigorous quantitative analysis, the data results have indicated possible factors that influence the decision to act for JVs in China. This evidence supports the findings from qualitative research with different research analysis approaches. The discussion section of this chapter focuses on the research data analysis results as a means of defining the investment motives from the Taiwanese investor's perspective for using JV and guanxi networks. The discussion will follow the previously established research methodology structure: first interview, questionnaires and second interview, based on the three major research themes: the difficult relationship between Taiwan and China, culture similarity between Taiwan and China, and general Sino-Taiwanese JV performance.

The purpose is to uncover the possible factors of the central research themes and sub-topics. Such findings about Sino-Taiwanese JVs and guanxi networks may prove valuable in explaining the main motives that determine the Taiwanese investor's behaviour in accessing the Chinese market. This chapter begins by presenting the interview data, which offer insight into Taiwanese firms' performance under the JV structure. Next, the quantitative data analysis results are reported to help explain the general Sino-Taiwanese

JV performance and characteristics and to identify the positive and negative effect of external environment and internal management factors on JV motives.

7.2 Descriptive Interview Findings of Sino-Taiwanese JVs

Table 7 summarises the general motives of JV behaviour, which suggest that the intentions of the Taiwanese investors were highly consistent with their entry strategy selections, based on various uncertain factors which affect firms' decision-making. Broadly speaking, based on the result of interview investigation, the twenty Sino-Taiwanese JVs firms in question were generally performing at a satisfactory level (Sino-Taiwanese JV (STJV) 1, 2, 4, 5, 6, 8, 9, 11, 12, 14, 15, 17, 18, 19, 20) (see Table 7). They had achieved their JV objectives and actively collaborated with Chinese partners to explore further opportunities in the Chinese market (STJV 1, 3, 4, 5, 6, 7, 8, 9, 10, 13, 14, 15, 16, 18, 19, 20) (see Table 7). But, those Sino-Taiwanese JVs that performed poorly either terminated their cooperative projects or shifted the focus of their businesses to other areas in order to seek a new market opportunity. Table 7 clearly shows that several Taiwanese venture firms are operating Wholly Owned Enterprises (WOEs) and JVs at the same time (STJV 1, 2, 4, 9, 10), while others are focused on collaborative development.

In terms of the question of entry mode selection, all the interviewed firms agreed that JV was the best strategy for them to enter business with the Chinese market. Through the interviews, the author also identified companies' ownership structures. In the total twenty

interviewed Taiwanese venture firms, thirteen of them have over 50 per cent of equity shares in JV formation (STJV 2, 3, 5, 6, 10, 11, 12, 14, 15, 16, 17, 18, 19), which might indicate that a dominant position was an important strategy to gain control within the JV structure. According to the summary in Table 7, the main consideration in forming JVs with Chinese partners was the attractiveness of the large size of the Chinese market and potential business opportunities (STJV 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 13, 14, 15, 16, 18, 19, and 20). Since human relationship building and interactions are an important factor in the Chinese market, Taiwanese firms believed that *guanxi* (personal relationships) were a significant component when collaborating with Chinese partners. More importantly, all interviewed firms were using *guanxi* networking in the partner selection process, which was recognised as the most important and popular way to determine the most appropriate partner for JVs (see Table7). Through the interview data analysis, several main elements of the strategic motives can be identified, which include the attractiveness of the Chinese market, political tensions between Taiwan and China, advantages of cultural similarity, importance of trust and commitment within relationships, benefits of *guanxi* usage, and JV performance.

Table 7: Sino-Taiwanese JVs Interview Results

Document	Entry Mode	Proportion of Shares	Industry	JV Partner's Selection	Motivations Towards China	Satisfaction With Sino-Taiwanese JV
STJV1	Both JV & wholly owned	50% vs. 50%	Construction & real estate	Director's business guanxi networks	Potential market, large profit, low cost	Satisfied
STJV2	Both JV & wholly owned	Greater than 50%	Timber, pulp & paper	Top manager's guanxi networks	Large profit & stable market demand	Not satisfied
STJV3	JV	50% vs. 50%	Hydraulics construction engineering	General manager's guanxi networks	Market opportunity & large profit	Neutral
STJV4	Both JV & wholly owned	Greater than 50%	Marketing & finance service	Subsidiary's guanxi networks	Potential market & global strategy	Satisfied
STJV5	JV	Greater than 50%	Bathroom equipment	General manager's guanxi networks	Low set up costs & potential market	Satisfied
STJV6	JV	Greater than 50%	Bathroom equipment	General manager's guanxi networks	Potential market, low labour cost	Satisfied
STJV7	JV	50% vs. 50%	Retailing	Subsidiary's guanxi networks	Potential market	Not satisfied
STJV8	JV	50% vs. 50%	Employee consultancy	General manager's guanxi networks	First mover advantage & large market	Satisfied
STJV9	Both JV & wholly owned	Less than 50%	Petrol related products	President's personal & business guanxi networks	Potential market & low overall costs	Satisfied
STJV10	Both JV & wholly owned	Greater than 50%	Hotel management	General manager's guanxi networks	Potential market, low labour cost	Neutral
STJV11	JV	Greater than 50%	Food & beverage	General manager's guanxi networks	High consumer purchasing power	Satisfied
STJV12	JV	Greater than 50%	Petrol related products	Business guanxi networks	Low overall costs	Satisfied

STJV13	JV	Less than 50%	Ink materials manufacturer	General manager's guanxi networks	Potential market	Not satisfied
STJV14	JV	Greater than 50%	Telecommunication & accessories	Partner's capabilities	Market opportunity & low labour cost	Satisfied
STJV15	JV	Greater than 50%	Plastic & related products	Business guanxi networks	Potential market but competitive	Satisfied
STJV16	JV	Greater than 50%	Cable & wire	General manager's guanxi networks	Potential market, large profit, low cost	Not satisfied
STJV17	JV	Greater than 50%	Sports & camping equipment	General manager's guanxi networks	Low overall costs	Very satisfied
STJV18	JV	Greater than 50%	Car & accessories	General manager's guanxi networks	Market opportunity	Satisfied
STJV19	JV	Greater than 50%	Pharmaceutical	Director's personal & business guanxi networks	Potential market & purchasing power	Satisfied
STJV20	JV	50% vs. 50%	Electricity	Director's personal & business guanxi networks	Potential market	Satisfied

Note: STJV 1 – STJV 8 (First interview in Beijin and Taiwan)

STJV 9 – STJV 20 (Second interview in Shanghai and Taiwan)

7.2.1 The First Interview Result

The first interview result was found to explain the general research issue of strategic motives for JVs, such as the attractiveness of the Chinese market, political tensions between Taiwan and China, and the advantage of cultural similarity. In fact, the research findings in this first interview result increased the confidence for the variables found in the questionnaire analysis, which provided a useful explanation of the JV related motives identified by Taiwanese firms.

7.2.1.1 Attractiveness of the Chinese Market

As detailed in Table 7.1 (see Appendix C), the main strategic motive of Taiwanese investors was strongly related to accessing the Chinese market as a means of Taiwanese business survival. Specifically, China's radically changing economic environment had produced the most powerful impact on the world market.¹ Of the total of 20 firms interviewed, 17 mentioned that accessing the Chinese market was the most important reason to set up a JV. All firms agreed that they were concerned about the deterioration of Taiwan's economic environment and the consequent worsening investment conditions. In other words, Taiwanese firms were forced to shift their business operations to the mainland, because Chinese partners could provide them with the necessary resources at

¹ China is influencing its formal imperial glory by infusing modern technology and market economics into a non-democratic system controlled by the Communist party and bureaucracy. Shenkar (2004) also explains why China's accelerating growth differs radically from predecessors such as Japan, India, and Mexico and, more importantly, how it will lead to a radical restructuring of the global business system.

lower cost. The following observations from interviews offer insight into JV related decision-making of Taiwanese companies:

We have no choice but to move all our entire manufacturing equipment and skills to China for sustaining the competitive price of products at minimum cost. Furthermore, we would like to introduce our products on the mainland. Thus the joint venture is an ideal strategy to transfer our production lines into a Chinese partner's existing facilities. By doing so, we are able to find our raw resources much more cheaply and through the venture partner's networks. We have the chance to sell our products in the Chinese market (General Manager, STJV 4).

China's economic power cannot be overestimated. In particular, China possesses many different attractions for Taiwanese firms such as low labour and land costs, massive size of market, economic preferential treatments, etc. However, problems often arise with local government authorities and business partners, thus a JV with trustworthy partners should provide a stable business operation on reduce negative effects association with doing business alone (General Manager, STJV 5).

Although Taiwanese firms are striving to sustain their operations by entering into the Chinese market, the high level of environmental uncertainty also needs to be taken into account to prevent potential risks (Luo, 2000). Apparently, the JV offers a useful solution for Taiwanese firms to draw upon crucial resources and market opportunities that can increase their competitiveness. A general manager of STJV 3 explained, 'a JV will be the best strategy for us to sustain the business operations in China within the shortest period of time before we are able to manage those businesses on our own'. He also said that 'because of a small and competitive market in Taiwan, we are willing to be the earliest Taiwanese investors in China to develop and secure our market position even though we know that we may fail during the actual implementation .

The statements above pinpoint China's 'low cost' and 'market potential' advantages as being the main motives for encouraging Taiwanese firms to continue their businesses operations and growth by collaborating with local Chinese partners in the formation of joint ventures. Because of the current economic opportunities in China, Taiwanese firms are likely to choose JVs as a strategy based on the speed of market entry and the neutralization of market uncertainty.

7.2.1.2 Political Tensions between Taiwan and China

According to the information that was derived from interviews, most firms believed that the usefulness of JVs was that they allowed them to avoid potential political risks because local venture partners often helped Sino-Taiwanese JV organisations to deal with government intervention and policy adjustments (Luo, 2001). A vice deputy general manager of STJV 6, who had been working in China for over ten years, when talking about political tensions between Taiwan and China, commented that

Taiwanese entrepreneurs should consider choosing the JV strategy in certain business sectors, because it can bring about the maximum benefits by reducing the risks and costs while operating in China. In fact, since P.R.C. government treats Taiwan as one province of the whole China, there were no useful legal protections for Taiwanese entrepreneurs despite the differences in political ideology (General Manager, STJV 6).

Additionally, most interviewees believed that the hostile situation of cross-strait relationships and uncertainties of the Chinese market might influence the choice of JVs

because JVs would bring the highest investment return and satisfactory performance in addition to helping firms face the problem of political and possible military confrontation between Taiwan and China. Typically, if firms or individuals had been involved in Taiwanese political developments, it was not surprising that the same Taiwanese firms, if based also in China, receive of special attention from the Chinese authorities². One respondent from STJV 7 stated the risk of doing business in China as follows: 'Do not underestimate the power of the Chinese government. They have a way to find out the true identities of Taiwanese firms' even though those firms may be registered in other countries'. Clearly, the JV role might minimise the impact of Chinese government policies on Taiwanese firms. The general manager from STJV 8 pointed out that the cross-strait relation was a critical factor:

Eventually, most companies in Taiwan will shift their business operations to Mainland China. In consideration of the unique political situation between Taiwan and China, Taiwanese firms must find an effective strategy to protect themselves until they fully understand the Chinese economic and political environment. A JV serves as the important bridge for our firm to access the Chinese market without worrying too much about the interference from local or central governments (General Manager, STJV 8).

From the point of view of Taiwanese investors, the problem of the economic environment was fundamentally associated with its political and military confrontations. Most policies were governed by the Taiwanese and Chinese governments' attitudes toward each other.

² On 11th February, 2004 The BBC news reported that the Chinese authorities had infiltrated a spy ring, arresting 24 alleged Taiwanese spies. However, Taiwan denied such accusations because Chinese government wanted to influence voters for Taiwan's presidential election in 2004 (<http://news.bbc.co.uk/2/hi/asia-pacific/3476383.stm>).

Thus, when Taiwanese firms decided to enter the Chinese market, JVs probably served as a matter of practical significance which could help maintain business survival and daily operations as well as prevent or minimise unexpected political influences.

Taiwan has geographical proximity and a similar culture background, advantages which can play a significant role in China's economy. However, Taiwan's government worries about the military threats and daunting consequence of the economic hollowing-out effect³. Therefore, from the Taiwanese government's point of view it is necessary to restrict direct trading, travel, and post between Taiwan and China. However, such restrictions cannot keep Taiwanese entrepreneurs away from investing in China, because they know that Chinese economic power will have an inevitable effect on overall Taiwanese businesses and companies in the future (General Manager, STJV 2).

As a Taiwanese enterprise in China, we encounter more challenges than other foreign firms because we do not get support from the Taiwanese government. For example, in the hotel service sector from the beginning of business approval to the annual routine business operation review, various local or central government agencies will pay a visit on your company intentionally if you are on their 'black list' (Deputy Director, STJV 7).

Such statements suggest that, owing to unexpected changes in China's political environment, foreign firms might have to choose collaborative forms of business to bypass political interference. Since cooperative organisations such as JVs have strategic importance, they help Taiwanese venture partners overcome the problem of local market knowledge in addition to counteracting the possible impact of political instability on the companies (Luo & Yan, 2001).

³ Economic hollowing-out refers to the threat of China's economic power to Taiwan, because China offers better investment incentives and economic infrastructures to attract potential foreign investors to invest in China in order to sustain economic reform.

7.2.1.3 Cultural Similarity Motive

Cultural similarity was found to be a significant factor for forming a JV as well as for influencing JV performance in China. In particular, Chinese culture is collectivistic (Bjorkman and Lu, 1999), which means that establishing a certain level of guanxi networking for Taiwanese is an essential process. In particular, it can reduce the threat of opportunism, because well-developed guanxi relies on high degrees of trustworthiness in the relationship. Thanks similar cultural and language factors, Taiwanese investors possess considerable competitive advantages which strengthen their competitive position and flexibility while working with Chinese partners in a JV formation. Cultural and guanxi factors were regarded by those interviewed as the main motives for Taiwanese investors to pursue the JV entry option. According to the interviews, Taiwanese managers were likely to emphasise the significance of cultural similarity in complementary partnerships.

Sharing the similar culture background with the Chinese is a very important issue for us when considering joint venture operations. A JV in China not only focuses on the partner's capabilities and contributions, because much of the venture's matters need to depend on the performance of the partner's interactions for business success. Therefore, not only understanding the partner's local culture and custom is important, but also frequent communications between partners is required to produce the best outcomes for the JV business (President Assistant, STJV 1).

Such an explanation shares that the similar culture was a significant factor in facilitating the complementary process in Sino-Taiwanese JVs and in enhancing the performance of these firms. The traditional Chinese were suspicious to outsiders because of their characters and social habits (Hui & Graen, 1997), the advantage of emphasising cultural

similarity provided strategic benefits for Taiwanese investors in creating positive images and operational synergies in JVs within China. Optimal cooperation development must consider the impact of culture, and particularly cross-border Sino-foreign JVs need to take Chinese culture into account.

In addition to sharing similar cultural traits with the Chinese, Taiwanese investors also have a linguistic advantage which facilitates the JV integration process. For example, many meetings with Chinese partners take place over the dinner table, where everyone involved can discuss the detail of venture projects and operational procedures. Shared language can increase interactions between partners during negotiations and help construct special bonds to ensure stability of the JV. In STJV 3, a general manager suggested 'A JV is a complex organisation and differences between partners will certainly be created. But those conflicts can be resolved by frequent and effective communication between firms'. In this sense, speaking the same language facilitates 'heart-to-heart' communication between venture partners. Combined with the advantages of culture similarity, this greatly increases the success rate for JVs (Hoon & Sing, 1999).

7.2.1.3.1 Commitment and Trust

Trust and commitment are key elements for successful JVs (Cullen et al, 2000). Particularly, mutual trust is vital for cooperation (Buckley & Casson, 1988), and commitment is developed from complementary relationships (Geringer, 1988). The notions

of trust and commitment also coincide with the Chinese Confucian concept (Tan & Chee, 2005), which consistently emphasises the importance of trust as a factor in maintaining long-term relationships. The research findings showed that all the interviewees agreed that trust was essential in a JV formation because it determined efficient JV operations and management. Generally, partners with a high level of trust usually committed more resources to the JV. Since trust was found to be heavily reliant on previous relationships (Tan & Chee, 2005), a good *guanxi* offering mutual benefits could be constructed through frequent interaction over the long-term. With regard to the complementary purpose of strategic resources, it was found that with a conducive business *guanxi* atmosphere and given the current economic circumstances, Taiwanese and Chinese partners were more likely to establish stronger trust relationships to offset opportunistic behaviour. One of the interviewed respondents mentioned that it was difficult to establish trust with other outsiders. Building trustworthiness in a relationship in any case requires an investment of time, but if firms could rely upon similar Chinese ethnic relationships perhaps that would have a positive effect on trust building. In fact, *guanxi* clearly affected moral and business ethics and might therefore be the basis of a greater sense of shared responsibility and power between venture partners, who would subsequently contribute important resources in the best interests of the JV. A general manager at STJV 3 stated:

Without a trust relationship between venture partners it is difficult for us to engage overall JV activities. Since we recognised that our managerial and operational systems are more efficient than our Chinese partner's, we therefore wanted to take overall control of JV activities. Because both firms have already been working together for a long time, our Chinese partner has

accepted several changes in terms of management styles and operation systems to achieve optimal JV performance (General Manager STJV 3).

According to this statement, some degree of difference in management style and practice exists between the Taiwanese and Chinese firms, and this could have created serious problems had the firms not recognized thanks to their cultural alignment that the business would being is from adoption of the management and operation practices were adhered to by one of them. Guanxi ties therefore appear to be very helpful for firms doing business in China, but they do not necessarily guarantee business success. As venture firms differ in their resources, capabilities, strategic motivation, know-how, and experience, there is an increased chance that untrustworthy behaviour will occur, since JV relies upon a cooperative nature (Tiessen & Linton, 2000). Untrustworthy relationships may reduce the partners' dependence on one another and interfere with cooperation, which may lead to termination of the JV.

A vice deputy general manager of STJV 6 noted that the importance of trust in Sino-Taiwanese JVs was not easy to establish, because the partners constantly questioned each others commitment to and determination for the JV. Indeed, no firms totally trusted their venture partners, because the market demanded competitive behaviour to facilitate the firms' future development. Thus, strategic types of trust appeared to be an essential element in a JV for those interviewed, because it required a high level and intimate collaborative relationship based on complementary purposes.

According to the interviews, JV conflicts usually resulted from poor relationship management, which might be avoided via guanxi networks, because partners could have a chance to gain valuable information and understanding about their partner's background. With the great strength of guanxi networks militating against disloyal or opportunistic behaviour, partners might feel compelled to fulfil their obligations and duties in the JV in order to avoid ruining the JV's reputation (see the result of second interview in the next section). Nevertheless, a JV contractual agreement was still needed to maintain daily operations and enforce the partners' obligations to JV projects. This view was expressed by several interviewees who revealed the importance of trust and commitment in the context of cultural similarity, for instance, the key requirement for combining operations was a certain degree of trust between the staff involved. These interviewees stressed the significance of trust in the context of the JV in order to prevent opportunistic behaviour on the part of the partners (Boersma, Ghauri and Rossum, 1998).

7.2.2 The Second Interview Result

The purpose of the second interview was to confirm the previously interview and questionnaires results. In addition, the second interview sought to explore the use of guanxi in Sino-Taiwanese JVs in more depth. The findings supported the correlation relationships results that were found in the quantitative analysis.

7.2.2.1 Guanxi Network Motives

The useful role of guanxi in JVs might very well represent a problem-solving tool to help partners access limited resources and important information (Lee, Pae and Wong, 2001). Although guanxi networks normally drive from various relationships, they have also traditionally engaged in different roles in Chinese society and provided information and a resource-exchanging function that had an effect upon long-term reciprocity (Hwang, 1987; Chen, 2000).⁴ The evidence shows that a total of twenty interviewees agreed that guanxi played a crucial role in overall JV activities, especially when firms were entering the Chinese market. In other words, guanxi (interpersonal relationships) were recognised as the most crucial element in determining smooth-running operations between venture partners engaged in external transactions. This means that guanxi make it easier for Taiwanese firms to gain from relationship exchanges and practices which might, for example, improve the efficiency of transactions in the Chinese market or facilitate project approval within the bureaucratic system. In particular, a deputy general manager of STJV10 pointed out that the usefulness of guanxi was that it fostered the collecting or exchanging of essential information between partners. Significantly, the Chinese market was shown to be characterised by difficulty in obtaining useful and reliable information (Luo & Yan, 2001). Thus, the deputy manager (STJV 10) commented that without guanxi there was no way of doing business and living in China, owing to a lack of reliable information. It can be seen that guanxi are an important force in securing long-term

⁴ Hwang (1987) distinguishes three types of guanxi relationships, which included expressive ties, mixed ties, and instrumental ties based on personal affiliation. Similarly, Chen (2000) classified Chinese relationships on three levels, each of which described the degree of social proximity – *jiaren*, *shuren*, and *shengren*.

relationships and competitive advantages. Firms need to maintain complementary relationships in order to obtain maximum benefits.

Within the JV partnership, guanxi has reduced internal uncertainties and conflicts. As Reuer & Tong (2005) suggest, large cultural distances within JVs may not only create opportunistic behaviours, but also increase coordination costs and encourage venture parent firms to have less commitment. All interviewees mentioned that guanxi relationships were important in maintaining harmonious working relationships, for example, a vice-president of STJV 9 believed that guanxi could create synergy between parent firms. He further commented that 'the nature of guanxi can facilitate JV working relationships between Taiwanese and Chinese parent firms. He added: 'Even though we need to spend more time, money, and effort to establish such guanxi relationships, they can offer long-term benefits for our businesses in China'.

As suggested by Reuer & Tong (2005), market uncertainty usually results from external environments, such as political hazards, weak systems of law, or a rapidly changing macroeconomic environment that might continuously frustrate foreign investors who were wary of entering such an ambiguous market as China's. The Chinese authorities have tended to interfere daily in business operations, which have often caused serious damage to a firm's performance. Since the Chinese market has been perceived by in terms of its

inherent relationships (Buttery & Leung, 1998), guanxi has probably provided the dynamic ways for organisations to coordinate business activities.

A president of STJV 11 remarked that: though guanxi is important across different industrial sectors, our businesses are more heavily associated with guanxi relationships in our hotel service sector. Every issue seems to connect to relationship building and cultivating, thus the lack of such guanxi relationships may yield negative influences on a company's strategic plan and reputation, which cannot be easily restored. In the high-tech industry sector the dynamic guanxi function links firms with potential suppliers and helps them meet demands of the competitive market. A manager of STJV 2 emphasised the importance of guanxi relationships as follows: firms need to secure supplying resources to prevent a shortage of production and that may damage cooperative relationships, it is also important to meet customer's requirements to maintain a long-term relationship. Hence, guanxi provides a key function as an entry barrier against imitable behaviour from potential rivals (Deputy Manager, STJV 12).

This point has been confirmed by several other interviewees. The general manager of STJV17 stated that guanxi can reduce costs and secure a firm's position in the market. He pointed out '[if we] have a good guanxi with business partners and government authorities, [we] can increase the efficiency of production lines and reduce the time of documentation approval for exporting, thereby providing an important source of commercial stability'.

This research has underlined the significance of guanxi as a specific factor influencing JV organisations' operations while both partners are pursuing their own interests. Although firms have different intentions in utilising guanxi relationships in JVs, guanxi has an undeniable effect on joint ventures' structure, strategy, and performance.

7.2.2.2 Partner Selection Process

Partner selection is seen as an important process for the success of IJVs, because compatible partners are more likely to meet firms' objectives and truly contribute to their success (Tan & Aken, 2001, p. 3). All interviewees were involved to varying degrees in the partner selection process, because it was a primary challenge for firms to find a compatible partner. With regard to a JV's complementary perspective, the partner selection process has been regarded as being based on certain criteria including reputation, experience, financial traits, and personal knowledge, as well as other specific requirements (Ali K & Eggert, 1999). Thus, the complex partner selection process has been considered to be embedded within informal interpersonal relationships (guanxi) in order to determine firms' strategic JV partners (Luo & Yan, 2001). Interviewed firms mentioned that they were looking for cooperative business in order to stay ahead of the competition, hence they relied on guanxi in the partner selection process to help link them to the most reliable partners.

As one interviewee stated, 'guanxi provides more information on appropriate partners with regard to size, experience, capital and other related issues. More importantly, it creates intensive interactions between firms' top managers involved to helping us fulfil our commitments in JVs'. Other interviewees cited that top managers' guanxi was the most important factor in determining potential venture candidates. In the case of STJV 14, a deputy manager noted that their venture partner was found through the president's guanxi in China. Hence the firm more easily set up the joint venture and enjoyed a good cooperative relationship in the JV development. 'In Particular, in the JV they needed to share most of their operations and management. If we lack guanxi, we would not be able to work with our current Chinese partners'. This view was agreed upon by many other interviewees. For instance, the general manager of STJV 16 stressed that in her customer service business guanxi relationships could determine whether the firms would achieve success or not, because they increased opportunities to gather useful information and consequently allowed access to necessary resources.

Interestingly, all the interviewees used similar partner selection criteria in order to match compatible venture partners, thus their strategic JV agenda included:

- 1) size and profitability – since firms are driven by profitability to form a JV, similar size of venture partners might allow firms to have more bargaining power;
- 2) nature of business involved – enables venture partners to make an adjustment to reach congruent goals and objectives in JVs;

- 3) parent firms' attitude towards the operation – serves the best interests of venture partners who need to learn how to cooperate rather than compete;
- 4) background characteristics – similar cultural and background experiences can facilitate cooperation, since venture partners can more easily reach consensus in a JV;
- 5) motivation for forming JVs – motives of the venture partners will determine the interaction between JV parent firms, who may exert great influences on JV development;
- 6) rationale for selecting a specific partner – the compatibility of the potential partner firms may determine the effectiveness and efficiency of the JV, which will impact on its success;
- 7) structural characteristics of JVs – strategic control is usually associated with the JV ownership structure, which enable firms to protect their own interests (Geringer, 1988).

According to the interviewees, firms consequently rely upon their special guanxi to gather the critical information for partner selection. Guanxi can increase the speed of market entry by identifying potential venture partners. One interviewee explained that,

Guanxi can be seen as our most reliable tool for choosing an appropriate venture partner, because through the family and relative guanxi networks in China we are able to know more people in our business sector. Fortunately, we found our desirable Chinese partner within a short period of time. And we are enjoying the benefits of this JV strategy ever since, because we truly trust each other's actions for business development (General Manager, STJV 17).

[We] have had past JV experience in other foreign countries; therefore, we are very suspicious about choosing the appropriate Chinese venture partners. Unlike other JV projects for which the partner selection process was based on partner's capabilities, in China guanxi seems to be a main factor in

obtaining the venture partnership; especially, the president is the one who makes the final decision (General Manager, STJV 20).

Clearly, Taiwanese and Chinese firms were strongly bound by a common background and thus used their *guanxi* networks to provide an alternative solution to selecting a suitable JV partner for Taiwanese investors. Meanwhile, *guanxi* has certainly become a strategic tool to access 'complementary' partners, typically, in the Chinese market, where 'the information exchange through official channels is limited and the legal environment is weak' (Gao, 2000, p. 2).

7.2.2.3 Guanxi in JV Management

The cultural differences in management have been identified by the literature as having an effect on JV performance (Li et al, 1999). Particularly, such situations have been found to encourage deficiency in JV operations and to reduce partner firms' commitment to cooperation. Therefore, cross-cultural management seems to be the most important part of such joint operations. This study supports this argument, interviewed firms pointed out that a JV was a complex entity, so firms needed to draw their resources together to achieve objectives for long-term survival and growth. This corresponds to Barney's (1997) findings, which a JV is a strategic tool for firms to access valuable resources to enhance their competitiveness. Consequently, a key for successful management was needed, because venture firms both tended to adopt a specific strategy and structure to achieve satisfactory JV performance, and needed to develop a good *guanxi* relationship between

them in order to maintain long-term JV cooperation. The main theme of good guanxi relationships was that they are able to relate positively to JV management, even if firms had different managerial behaviour and styles. Moreover, guanxi might accommodate those management differences between venture firms to increase cooperative efficiency in JV performance.

As shown in the interview summary (Table 7), ten respondents answered that the main conflict in Sino-Taiwanese JVs usually resulted from complex managerial issues such as sales strategy, employee skills training programmes, customer service and the decision-making process. For example, a general manager of STJV 18 stressed that problematic JV management might result from cultural differences between partners. He pointed out that, although Taiwanese and Chinese partners shared most cultural traits, their perceptions, concepts, attitudes, and custom towards to each other were difficult to reconcile sometimes. Similarly, interviewees specifically pointed out the importance of local cultural factors for the working environment as related to management issues in Sino-Taiwanese JV formation. The obvious case in Sino-Taiwanese JVs was the difference in management styles between Taiwanese and Chinese firms. Although managers from Taiwan appeared more willing to tackle the various problems of their Chinese partners in the cooperative formation, the managers from China tended to emphasise a 'no friction' environment, which indicated that they followed the old-fashioned bureaucratic approach to resolving problems and to creating harmonious management environments. Consequently, it was

found that all of the Taiwanese firms interviewed relied on maintaining good relationships with high level of Chinese managers in JV formation in order to solve management problems effectively. They could consequently encourage Chinese partners to respond to most of the managerial problems in the JV structure, rather than having the Chinese partners do things alone during the period of cooperation.

Understanding their Chinese partners' lack of cooperative experience and knowledge, all Taiwanese interviewees agreed that they had more responsibilities in carrying out effective and efficient management that would lead JVs to better performance since they had the international experience and had achieved economic success much earlier than their Chinese partners. Certainly, if both Taiwanese and Chinese venture partners could equally established the importance of guanxi networks, which not only would facilitate JV firms' complementary management processes to achieve objectives (Lane & Beamish, 1999), but also offered an effective communication tool to eliminate potential management conflicts.

7.2.2.4 Guanxi in Resolving Legal Disputes

The current Chinese legal environment is still ambiguous or uncertain and thus does not provide sufficient reassurance to Taiwanese entrepreneurs⁵. Luo (2001) and Yan (2000) both conclude that in the emerging markets where firms usually needed to face frequent changes in institutions and rules as well as irrational interference from government

⁵ Although the Chinese government enacted preferential treatment for investors from Taiwan, including the Law of Protection of Investments from Taiwan to ensure for faster approval and better support services (Luo, 2001, p. 59) those regulations were not effectively executed in the Mainland, which caused many problems for Taiwanese investors.

authorities, *guanxi* allowed firms to avoid the risks of institutional instability by developing special personal or particularistic relationships with their specific exchange partners. According to interview results, most interviewees were aware that legal disputes would influence business development and performance. Therefore, establishing JVs with Chinese partners might provide them with a certain protection while carrying out business activities in China. Many respondents claimed that Chinese local laws and administrative regulations were inconsistent with central government's orders and authorities; therefore, they had no certain rules by which to abide. Since the legal system in China might be different in different regions, various government authorities had different interpretations of laws. Due to good connections with Chinese governmental authorities or familiarity with local legal practices Chinese partners might provide useful information and access to limited resources that would avoid the potential risks of violating business laws or regulations. In this sense, good *guanxi* with government authorities and important business partners needed to be developed and cultivated to provide a safeguard for firms to overcome the weak laws and institutions in China.

Several interviewees described laws in China as problematic and often contradictory, a situation which influenced JV cooperation. Since *guanxi* was important to Taiwanese firms, a Taiwanese general manager of STJV 2 explained the use of *guanxi* in an environment defined by weak institutions. He explained that there is a

Chinese concept that law is created by people and rule of law can be changed depending on the circumstances; therefore, the Chinese laws and legal regulations have been less effectively implemented and enforced. For instance, due to the concept of 'local protectionism,' it is obvious that local courts prefer to take the Chinese side in reviewing the case. Even if the court decides in favour of the foreign partners in Sino-foreign JV disputes, it takes a long period of time to enforce the awards which might have already caused substantial damage for the company (General Manager, STJV 11).

Based on the interview results, it could be said that when market uncertainty was likely to be high in China, the JV and guanxi networks were more valuable and likely to be employed by Taiwanese firms. This perhaps expressed most of interviewees' views, because Taiwanese companies in China were in the most vulnerable position compared to other foreign investors. Not only did they face additional political pressures from both governments, they also needed to find alternative ways to counter the weakness of the legal system. A general manager of STJV 13 stressed the guanxi network advantage of Sino-Taiwanese JV practice. He mentioned that

You cannot imagine that Chinese business partners would rather sacrifice their long-term gains for short-term profits. With the power of local government authorities, who makes them dare to take over the JV operations even though we had large shares in JV ownership. In order to overcome such cumbersome problems, guanxi play an effective solution in settling those disputes because China's current legal system is usually in favour of Chinese firms (General Manager STJV 13).

7.2.3 JV Performance

The interview identified that performance was measured by partners' objective achievement in terms of control ability as well as current JVs' financial performance. As can be seen from Table 7.1, the fourteen interviewees mentioned that their JVs had satisfactory performance both financially and non-financially. Two interviewees reported unsatisfactory performance, and another two reported that performance had remained the same. Since each interviewee was asked about business performance in terms of management, operations, profitability, objectives, and goals, the reasons for satisfactory business performance of the venture were different. For example, several interviewees explained that they made good profits from Sino-Taiwanese JVs, which gave them confidence to invest further capital and resources in supporting JV activities. Profitability was the most important consideration for Taiwanese firms to continue cooperating with Chinese partners; therefore, any benefits of the JVs related to profits. A general manager of STJV 11 had decided to move all the resources and operations to China 'because we have already met our objectives through JV formation and achieved impressive performance (profits). Even though there have been some unpleasant cooperative experiences, we eventually managed those problems and had better understanding of each other's goals'.

From the non-financial perspective, Taiwanese firms tend to achieve the initial stage of JV integration through relationship building between firms and staff within JV organisations. This provides a foundation for long-term success. One respondent explained that successful JV cooperation depended on several non-financial aspects:

[Our] purpose of JV is to pull important resources together in order to create a strong market position against the threats of the external environment and the potential rivals in the market. In order to achieve successful long-term collaborative relationships, we must establish a strong foundation of working relationship between firms as well as communication channel to enhance the degree of trustworthy relationships (General Manager of STJV 17).

Clearly, the reciprocal relationship in a JV is an important factor in leading the JV towards satisfactory performance. Although JV performance could be constrained by conflicts, misunderstandings, and untrustworthy relationships, constant negotiation and considerable communication between firms could help them to reach consensus and none the less achieve excellent JV performance.

7.2.3.1 Ownership and Control

A JV in the host country might focus on the ownership relationship between partners, from the strategic motive for forming JVs to improving competitive positions and achieving objectives. Strategic control was considered a significant mechanism in helping firms achieve goals or in obtaining resources in accordance with formal JV contractual agreements (Li & Tsui, 1999). Under the contractual JV formation, parent firms were

committed to contributing their important resources to JVs, such as investments, technology, know-how, and reputations, all of which increased motivation for further cooperation. However, because of legal rights in contractual JV formation, venture partners were able to obtain different proportions of equity shares based upon the agreement, and possessed different controlling power over JV activities (Yan, 2000).

Table 7.1 (see Appendix C) indicates that Taiwanese venture partners have a strong tendency to obtain majority equity shares in Sino-Taiwanese JV formations. According to the interviews, it was found that the interviewees' perception of the sensitive political issues might affect Chinese venture partners. An interview respondent experienced the importance of ownership in equity JV (EJV) between Taiwan and China, and stressed that

Because venture partners' behaviour is unexpected, we insisted we obtain the majority shares in any Sino-Taiwanese JV. By doing so, not only can we protect our interests, but we can more safely exit the JV if the JV needs to terminate at any time. Practically, the JV decisions can be made more effectively even though disagreements often existed between partners. Since parent firms have different objectives in JV, thus we are more likely to take overall control and ensure individual and joint tasks can be successfully carried out (General Manager, STJV 13).

This view is supported by previous studies on the advantages of majority ownership in IJVs (Killing, 1983, Luo & Yan, 2001). These suggest that ensure the long-term positive effect on JV business performance, foreign firms need more flexibility to cope with unexpected situations in the highly uncertain environment.

On the other hand, some Taiwanese venture firms had possessed minor equity shares in JV, but utilised such minority ownership positions by controlling the significant resources to manipulate overall JV activities in terms of management and operations. For instance, a deputy manager in STJV 19 mentioned that his firm contributed more critical know-how resources and knowledge to JV organisations, which not only increased his firm's cooperation commitments, but allowed it to gain bargaining power and its degree of control over an entire JV's operations.

Given the ownership positively associated with certain degrees of control, large equity shares in venture firms might indicate a high level of commitment. Research suggests that Taiwanese firms need to contribute more resources to obtain 'control advantage' in JVs (Dunning, 1993). More specifically, control has been identified as an important factor related to Sino-Taiwanese JV performance. Control has been perceived to be an effective direct or indirect management mechanism over JVs, based on the complex issues within cooperative structure. Schann (1983) identifies two significant control mechanisms, the positive control for venture partners to facilitate cooperative processes, and the negative control to prevent JVs from carrying out any activities that would create opportunistic behaviour. Table 7.1 clearly summarizes the importance of control in Sino-Taiwanese JVs and shows that Taiwanese parent firms have a high tendency to exercise different degrees of control in each of the interview cases. As a Taiwanese deputy director from STJV 19 commented on the importance of control:

Since there are three different venture participants with different cultures in our JV, control in several areas of JV would have a significant effect on our performance in China. We have offered new advance know-how expertise in the JV to encourage positive reciprocal relationships, but we need to consider the worst scenario at the same time to minimise the costs and losses. Hence, possession of certain degree of control among partners not only can ensure that JVs function properly, but can also serve as power for bargaining during the JV development (Deputy Director STJV 19).

There are several implications of the ownership advantage for Taiwanese firms in JVs.

First, firms with the majority ownership can reduce conflicts between partners, which also provide an important strategic factor for achieving JV objectives. Second, the ownership advantage might reduce unnecessary costs of JVs by facilitating resource exchanges that enhance JV competitive advantages. Third, preventing opportunistic behaviour and legal disputes from venture partners that have large equity shares in JVs would safeguard production in China's competitive market. Generally speaking, the interviews identified that outcomes of a dominant position in ownership did make Taiwanese firms achieve better performance.

7.2.3.2 Managerial Control

Effective control over IJV management was clearly a key factor in satisfactory business performance. All interviewees agreed that managerial control was one of the most important factors for JV performance, because it could effectively enforce firms' cooperation and operational decision-making within a short time period. Taiwanese parent firms with a combination of ownership structure in JVs could control managers' positions

and assessments, which were found to be the most important aspects for gaining a dominant position within Sino-Taiwanese JVs. As indicated in the interviewee summarised in Table 7.1 (see Appendix C), Taiwanese firms were more likely to place their staff in important managerial positions to secure better strategic position in JVs. Obviously, one key task for Taiwanese firms in JV's was to obtain managerial power by limiting managerial positions available to their Chinese counterparts. This not only revealed that Taiwanese firms had a high tendency to obtain a strong level of operational control over JV projects, but that they could also yield a significant and positive effect on daily business activities.

With regard to managerial advantages in increasing a JV's efficiency, the general manager of STJV 20 commented that 'because [our] business involved complex skills and knowledge which might endanger local inhabitants, we required our venture partners to let us place our men in the important management positions to secure daily operations'. In such a case, even though Chinese partners recognised the great benefits of occupying managerial position in JVs, they were lacking special management expertise, technology know-how, and international trading experience. Taiwanese firms appear to have had greater opportunity to access managerial control and thus influence Sino-Taiwanese JV performance.

Given the complementary function of JVs, successful management requires the ability to rely on each partner's capabilities in order to reach satisfactory management performance.

The stability of Sino-Taiwanese JVs is dependent on both Taiwanese and Chinese management skills and resources. On the one hand, the interviews showed that Chinese partners were able to recruit skilled workers to ensure a high level of quality production and services. On the other hand, Taiwanese partners provide robust training and reward systems in order to motivate employees' performance. A Taiwanese general manager commented that

Many firms based in China have faced serious shortages of skilled workers, but Taiwanese firms in JVs have better advantages of quickly recruiting skilled labour via Chinese partners' capabilities. Nevertheless, with advanced management skills, those Taiwanese partners were able to provide effective training programmes and reward systems to increase productivity and alleviate management constraints (General Manager, STJV 18).

In general, managerial control is positively associated with JV success (Tiessen & Linton, 2000). Most interviewees supported the view that Taiwanese firms should undertake managerial control within JV organisations in order to carry out JV tasks adequately and effectively and with less friction with the Chinese partners. As a result, managerial control can be considered a function of the operational actor for firms to achieve individual or group goals within JV organisations.

7.2.4 Mini Case Study

In order to understand the strategic motives and the usefulness of guanxi networks to JV formation from the perspective of Taiwanese partners, two interview cases will be briefly discussed to show how these two Taiwanese firms adapted their JV strategies in the fast-changing environment of the P.R.C.

7.2.4.1 STJV2.

The Taiwanese firm (STJV2) is the one of the top pulp and paper manufacturers in Taiwan. STJV 2 was established in 1960s and could produce hundred tonnes of paper production per day. They regularly imported hardwood chips as the main raw material for the manufacturer a variety of paper products for their customers and clients. Apart from the main business, their other business activities include such as design, manufacture and sale of related machinery, chemical materials and products, construction of commercial buildings and residential properties for lease and contracting services.

The Chinese market provides abundant cheaper labour and low cost raw materials. To meet the increasing demand for low cost pulp and paper from the Taiwanese market, STJV2 wanted to access the Chinese market and so sustain its competitive advantage allowing them to compete with other major business competitors. The Chinese paper manufacturers have sufficient of pulp and paper making materials at low prices to sell to Taiwanese consumers, although the quality of paper products require for substantial improvement.

The advantage of investing in the Chinese market through a joint venture was to achieve economies of scale by producing massive quantity of paper and related products. For example, STJV 2 tried to source and process raw materials in China and then transporting back to Taiwan which would be considered as a cost-effective strategy for them. Because the various costs of pulp tend to fluctuate widely in different seasons which would heavily influence company's profit and operation in pulp and paper industry. By setting up a collaborative organisation with Chinese business partners, STJV 2 could minimize such potential risks, especially when they faced unstable market demands for pulp and paper products.

As more and more its business activities take place in China, *guanxi* seems an important factor to operate business smoothly in China. The procurement manager of STJV2 stressed that *guanxi* provided the company with more new business opportunities, allowed the Taiwanese firms to get the strong supports from government authorities to ease permission to go-ahead and to start producing pulp and paper products. The use of *guanxi* y, STJV2 meant they had to spend a lot of money on gifts-giving, face-giving (see p. 108) and lavish banquet to establish a good *guanxi* relationship with government officials. As STJV 2 manager said there is an old Chinese saying 'you depend on your friends when you are in unfamiliar environment, you depend on your relatives when you are in home land,' which had clearly pointed out that establishing *guanxi* networks were significant for the business success. Although it would take substantial time and efforts for STJV2 to construct *guanxi*

relationships in China, the manager mentioned that it was a good strategy for foreign firms to establish their market position and compete with local producers using guanxi.

7.2.4.2 STJV5.

The Taiwanese firm (STJV 5) is one of the leading bathroom and sanitary ware manufacturer in Taiwan and China. They were established in the early 1930s as an earthenware factory, producing pots and potteries. In 1940s, they began to produce squat and seat type porcelain toilets in Taiwan. The Taiwanese partner is a typical Taiwanese-owned family business and always seeking different business opportunities in the global market.

The primary requirement for STJV 5 to set up in China was to identify a complementary Chinese partner who had a strong market position in the bathroom or sanitary industry. The main purpose was to use the partner's local product distribution channels and knowledge to expand STJV 5's business operations. STJV 5 has advanced technology and knowledge to produce a wide range of fashionable toilet equipment and accessories. Owing to the political conflict between Taiwan and China, the Taiwanese government usually not provide any help with cross-straits investment, and the way to find a Chinese business partner was to spend considerable time and money socializing with those people who had power in the local quarry industry. The general manager of STJV 5 admitted that he has already spend a large amount of money to develop a range of guanxi links, but claimed it

was worth investing in such human relations in China because the company's profits have been many times better than they expected. He pointed out that guanxi was important to both JV partners because the partners combined each others strengths and compensated for each other's weaknesses. STJV 5 operated mainly in the Chinese market and had a long-term perspective; hence they heavily depended on human relations and networks to explore further potential business opportunities.

7.2.4.3 Conclusion

The above cases demonstrate that how guanxi is used to develop new and dynamic business opportunities, building stronger supplier/seller relationships. It also provides the possibility to engage in new international markets with the business partner's products. From the market sales perspective, guanxi is a way to sustain a product life cycle because customers will either try the new products or stay with a certain brand if there is a strong bound of guanxi between customers or business associates. This is particular relevant in business to business relationships. Guanxi is in some circumstances perceived to be more important than professional marketing expertise. Interviewees claimed that even you have a great marketing plan if you are lacking guanxi, the plan is useless in China.

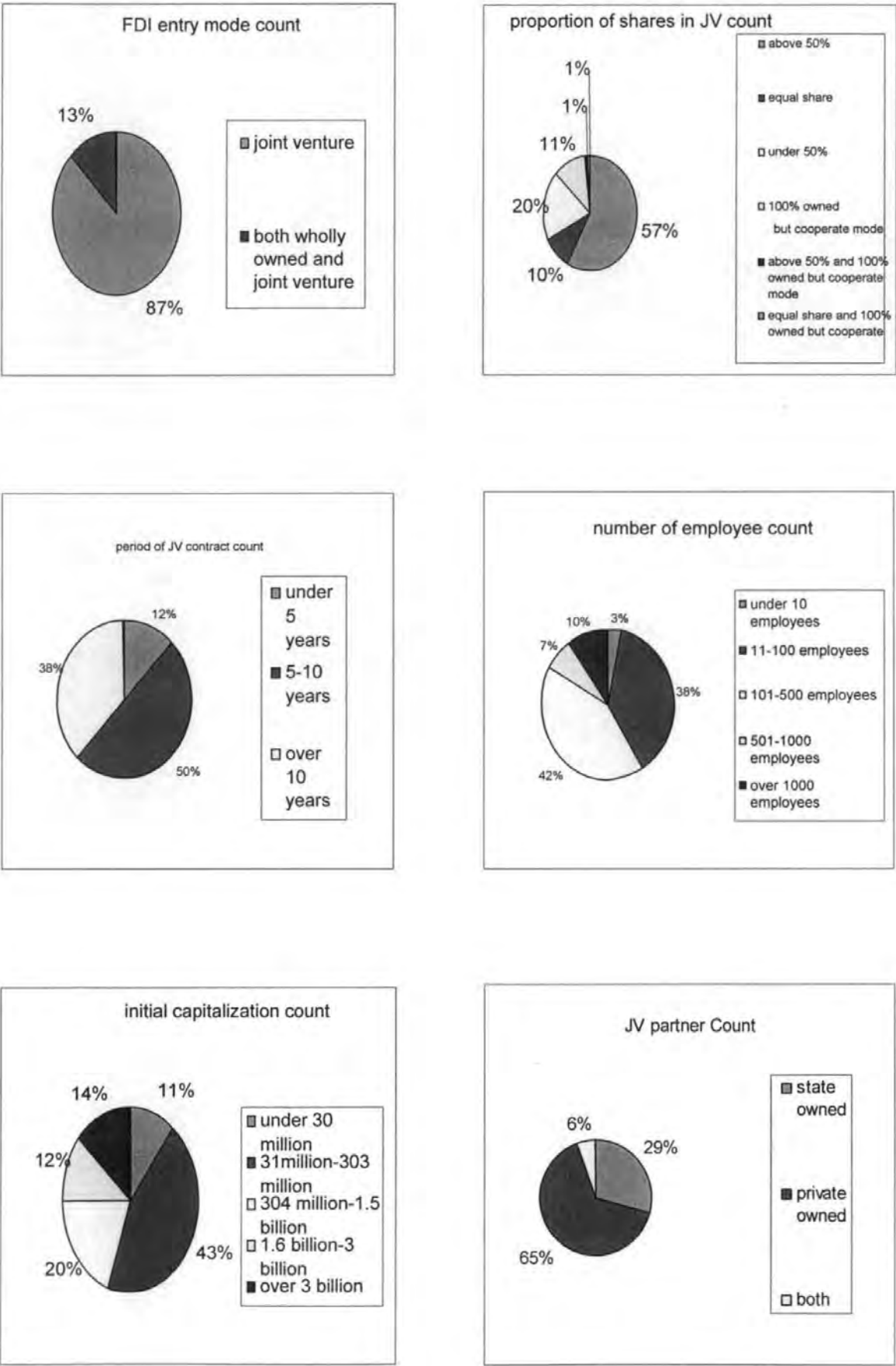
7.3 Descriptive of Survey Findings

Quantitative data analysis covers a wide range of issues in this particular study and provides useful ways of 'exploring relationships' among the data applicable to each variable (Robson, 1993). The quantitative data results allow us to evaluate the significant value of Sino-Taiwanese JV formation based on its special circumstances. In order to uncover the essence of general Sino-Taiwanese JV development, performance, and characteristics, it is important to select an appropriate data analysis technique to explain: (1) possible factors influencing a JV's successes or failures from different point of views and (2) the correlation relationship between those factors that would express real JV motives. The variables relating to Taiwanese investors' motives for JV will be analysed through two different analytical techniques. First, the frequency analysis presents Sino-Taiwanese JV characteristics and general performance in relation to Taiwanese investors' motives for setting up JVs in China. Second, the factor analysis shows the factors' correlation relationships to highlight significant points of Sino-Taiwanese JVs in support of the posited hypotheses. The correlations table explains the relationships between motives for JV variables and those relevant JV factors. In other words, factor analysis allows us to understand the influence of guanxi networks on JV performance. Descriptive statistics help test proposed hypotheses against the significant differences in this particular study.

7.3.1 Descriptive Statistics of Sino-Taiwanese JV Factors

According to the survey result, this shows the valuable information about the overall Sino-Taiwanese JV performance and its unique characteristics (see Figure 7.1). For example, 85.6% of Taiwanese respondents concentrated on JV activities with Chinese partners, and 12.9% were involved in both wholly owned subsidiaries and JVs at the same time. In Sino-Taiwanese JVs, for example, 53% of Taiwanese venture partners had majority shares, and 27.3% of them had equal or minor shares within the JV formation, which probably indicates that the majority equity shares might be their favourite option in ownership strategy. In addition, many Sino-Taiwanese JVs operated in China on a long-term basis. In the frequency table, 32.5% of the total sample had signed up with Chinese partners in JV formation for over 10 years, 30.3 % of them for 5 to 10 years, and 9.8% had signed up for less than 5 years. Of the Taiwanese parent companies, 9.1% of the sample had over one thousand employees, and 6.1% of the over five hundred to one thousand employee category. Respectively, 37.9% of them had over one hundred to five hundred employees, 34.1% for over ten to one hundred employees and 3% had fewer than ten employees. As for the initial capital investments perspective, 11.4% of the total responded sample had invested over U.S.\$ 3 billion, 9.8% had invested U.S.\$ 1.6 billion to U.S.\$ 3 billion, 16.7% had invested U.S.\$ 32 million to U.S.\$ 1.5 billion, 37.1% had invested U.S.\$ 31 million to U.S.\$ 3 million and only 9.1% had invested less than 30 million for JV initial costs. These figures seem to indicate that most Taiwanese firms involved in JV operations are small to medium-size firms.

Figure 7.1: General Information of Sino-Taiwanese JVs (Unit: U.S.\$)



7.3.1.1 Economic Push Factor (Deterioration of the Taiwanese Economy)

The survey findings reveal that several issues related to undesirable investment conditions can become the major factors for Taiwanese firms to set up JVs in China (Table 7.2). As might be expected, 'high labour costs' account for 70.5% of total economic push factors, which was the most important reason for Taiwan's deteriorating economic environment, followed by the 'high cost of human resource management' (68.9%), the 'high cost of operating in domestic market' (60.6%), the 'small size of domestic market' (59.9%), the 'competitiveness of the Taiwanese market' (56.1%), the 'high cost of acquiring raw material in Taiwan' (47%), the 'strict environment laws' (43.2%), the 'lack of support from Taiwanese government and local authority' (34.1%), the 'lack of support from Taiwan financial institutions' (27.3%), the 'appreciation of Taiwanese currency' (27.2%), 'decreasing exporting orders' (19%), and the 'global economic downturn' (12.1%).

According to these figures, a great number of Taiwanese JV firms were encouraged to invest in China largely as a result of expensive labour costs and the small scale of the Taiwanese market.

Table 7.2: Economic Push Factors for Taiwanese Enterprises

	Very important Reason		Important Reason		Minor reason		Not an important reason		Not a reason	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Global economic downturn	4	3	12	9.1	33	25	31	23.5	43	32.6
Business is inability to survive in domestic market	46	34.8	34	25.8	17	12.9	17	12.9	12	9.1
Small size of domestic market	43	32.6	36	27.3	18	13.6	13	9.8	15	11.4
Strict environment laws	29	22	28	21.2	29	22	16	12.1	24	18.2
Decreasing exporting orders	3	2.3	22	16.7	23	17.4	24	18.2	48	36.4

High cost of acquiring raw material in Taiwan	28	21.2	34	25.8	18	13.6	24	18.2	20	15.2
Competitiveness in Taiwanese market	36	27.3	38	28.8	18	13.6	20	15.2	14	10.6
Appreciation of Taiwanese currency	13	9.8	23	17.4	37	28	29	22	24	18.2
High labour cost	52	39.4	41	31.1	12	9.1	14	10.6	8	6.1
Lack of support from the Taiwanese government and the local authority	15	11.4	30	22.7	29	22	28	21.2	22	16.7
Lack of Taiwanese government financial support	16	12.1	20	15.2	28	21.2	32	24.2	30	22.7
High cost of human resource management	44	33.3	47	35.6	17	12.9	14	10.6	8	6.1

7.3.1.2 Economic Pull Factor (Attractiveness of the Chinese Market)

A large numbers of respondents strongly agreed that 'size and potential market' (78%) were the most important reason to invest in China (Table 7.3). This is followed by 'availability of abundant cheap labour' (57.6%) and 'low initial capital investment' (45.4%), which indicates that the low cost of resources were the main concern for Taiwanese venture firms. 'Re-use the Taiwanese firms' machinery equipment' and 'financial supports from Taiwan's parent firms' (40.2%), 'special economic environments' (32.6%), 'resources availability with low costs' (28.1%) and 'robust infrastructure in special economic zone' (14.4%) all reflected the desirable investment conditions of Mainland China. These ratings revealed the statistically significant attractiveness of the Chinese market. Specifically, these factors highlight the attractiveness of China's investment environment, which reveals that China is the source of market opportunities and resources.

Table 7.3: Economic Pull Factor for Taiwanese Enterprises

	Very important reason		Important reason		Minor reason		Not an important reason		Not a reason	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Size & potential market	42	31.8	61	46.2	6	4.5	12	9.1	4	3
Lower capital investment cost	16	12.1	44	33.3	37	28	22	16.7	6	4.5
Cheap labour costs & availability	24	18.2	52	39.4	33	25	10	7.6	9	6.8
Resource availability with low costs	10	7.6	27	20.5	39	29.5	26	19.7	20	15.2
Re-use the Taiwanese old machinery equipment	22	16.7	31	23.5	30	22.7	22	16.7	21	15.9
Robust infrastructure	3	2.3	16	12.1	31	23.5	40	30.3	32	24.2
Special environment factor	5	3.8	38	28.8	28	21.2	28	21.2	22	16.7
Financial support from Taiwan parent firm	27	20.5	26	19.7	24	18.2	17	12.9	32	24.2

7.3.1.3 The Capabilities of Chinese Partner

The capabilities of Chinese partners appeared to be the most important factor for Taiwanese firms that decided to work with local venture partners on a long-term basis under the JV structure. Table 7.4 presents several explanations of why Taiwanese firms collaborate with Chinese partners on the basis of what they have to offer. For instance, there was a large response to 'Chinese market accessibility within the short period of time' (57%) and 'finding distribution channels in China' (39.8%), which all reflected important motives for adopting a JV strategy. Respondents were also asked other reasons for cooperating with venture partners: 'to achieve economies of scale' (33%), 'to lower overhead investment' (25.3%), 'to overcome local laws and regulations' (24.8%), 'to link with suppliers' (23.3%), 'to use partner's existent facilities' (17.3%) and 'to utilise partner's technology capabilities' (6.9%). This underlines the importance of and reliance

on the strategic JV partner's capabilities in order to access the Chinese market quickly. In other words, the important statistical evidence above clearly illustrates the significance of JVs in improving Taiwanese firms' competitive position and marketing development by collaborating with local Chinese partners.

Table 7.4: Significance of the Capabilities of Chinese Partner's

	Very important reason		Important reason		Minor reason		Not an important reason		Not a reason	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
To lower overhead investment	3	2.3	30	23	47	36	32	24	13	9.8
To access Chinese market	21	16	54	41	26	20	17	13	7	5.3
To find distribution channels or routes	9	6.8	43	33	32	24	27	21	11	8.3
To achieve economic scale	4	3	39	30	36	27	29	22	12	9.1
To link with suppliers	3	2.3	27	21	45	34	35	27	13	9.8
To use partner's existed facility	3	2.3	20	15	36	27	45	34	16	12
To use partner's technology capabilities	1	0.8	8	6.1	25	19	46	35	44	33
To overcome local laws and regulations	5	3.8	27	21	55	42	27	21	10	7.6

7.3.1.4 China's Uncertainty Environment

The survey showed that, although China offers many attractive investment conditions for Taiwanese investors, the fact that the Chinese market still retains uncertain characteristics is felt to increase the risk when dealing with businesses in China. As the data presented in Table 7.5 indicates, 66% of the total of Taiwanese firms who responded when asked to

explain the impediments in the Chinese market answered that the 'constant changing regulations and institutions' may contribute the primary consideration for Taiwanese JV firms. This was followed by the 'compulsory regulations are not applicable nationwide' (54.1%), 'existing regulations are not effectively implemented nor executed' (50.8%), 'people ruled the Chinese society' (40.6%), 'unavailability of market information' (37.8%), 'unsatisfactory special regulations have limited Taiwanese business development' (35.6%), which indicated that a high degree of uncertainty existed in China's economic environment. It suggests that, if firms can combine their unique advantages, they may reduce the impact of uncertainties on firms' performance.

Table 7.5: Chinese Market Instability

	Very important reason		Important reason		Minor reason		Not an important reason		Not a reason	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Unavailability of market information	5	3.8	45	34	43	33	23	17	11	8
Unsatisfactory promulgation of formal regulations	10	7.6	44	33	47	36	19	14	6	5
Unsatisfactory special regulations have limited Taiwanese business development	10	7.6	37	28	46	35	26	20	8	6
Existing regulations are not effectively implemented nor executed	13	9.8	54	41	43	33	13	9.8	5	4
Compulsory regulations are not applicable nationwide	8	6.1	63	48	39	30	14	11	4	3
Constantly changing regulations and institutions	18	14	69	52	26	20	13	9.8	3	2

7.3.1.5 Cultural Similarity and the Importance of Guanxi

Cultural factors were heavily influential in Sino-Taiwanese JV activities and involved almost every aspect of the strategic cooperation process, and this affects their daily operation performance, of course. Taiwanese respondents were asked to identify the advantages and disadvantages of cultural similarities in JVs to find out whether cultural similarity could create higher levels of JV performance (Table 7.6). One major issue was 'sharing a similar culture and speaking the same language as a clear positive advantage to Taiwanese firms for their entry into the Chinese market' (71%). A large number of respondents answered that 'Taiwanese enterprises were more welcome than other foreign firms' (50%), followed by the beneficial 'ease of building guanxi relationships' (32.6%), and 'seeking Chinese JV partners via guanxi' (31.6%). It shows that Taiwanese investors were better placed than other foreign firms because their background and language ability offered them an effective way to access Chinese market and allowed them quickly to activate the crucial resources of guanxi in order to maintain a good relationship with Chinese partners. Thus, a close association between cultural similarities and JV development is apparent. This implies that guanxi can be a major way for Taiwanese firms to seek scarce resources, since information and data are limited in China. More importantly, it shows that Taiwanese firms tend to use guanxi networks to seek JV partners with which there is a strategic fit because of the complex issues in a JV, such as the need for compatible goals, complementary skills, cooperative culture, and the commensurate risk (Luo, 1998; Brouthers et al., 1995).

Table 7.6: Importance of Culture Similarities and Guanxi Networks to Taiwanese Enterprises in China

	Very important reason		Important reason		Minor reason		Not an important reason		Not a reason	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Seeking appropriate Chinese venture partner via guanxi	4	3	38	28.8	56	42.4	12	9.1	15	11.4
Advantage of cultural similarities and sharing same language	17	12.9	78	59.1	23	17.4	9	6.8	4	3
Ease in building up trust relationship	3	2.3	26	19.7	52	39.4	38	28.8	12	9.1
Easy to build up guanxi relationship	5	3.8	38	28.8	55	41.7	25	18.9	8	6.1
Similar communication styles	2	1.5	39	29.5	53	40.2	30	22.7	6	4.5
Enhanced welcome by the Chinese firms	7	5.3	59	44.7	42	31.8	18	13.6	3	2.3
Guanxi an important factor for Taiwanese firms	3	2.3	25	18.9	74	56.1	21	15.9	5	3.8
Understand Chinese partner's thinking and ethnic cognition	3	2.3	30	22.7	52	39.4	37	28	7	5.3
Recognise Chinese employees achievements	1	0.8	30	22.7	50	37.9	41	31.1	7	5.3

7.3.1.6 Cultural Influence to Taiwanese Enterprises

While Taiwanese firms shared similar culture with Chinese partners, several cultural differences existed between firms owing to large gaps in concepts, values, education backgrounds, and beliefs. The findings summarised by Table 7.7 show that cultural dissimilarities in a JV create complex problems in cooperative operations and management, since both partners have fewer cultural differences. Therefore, many respondents answered that 'untrustworthy relationships existed even though we share a similar culture' (55.3%), others cited 'different views of profitability' (53%), the 'need for more time on negotiation towards strategic operation' (49.3%), or stated that 'cultural differences existed in managerial system' (37.9%). Additional responses highlighted

'different ethical attitude to achieving venture goals' (34.9%), or expressed the view that 'cultural difference affect staffs relationships' (28.8%). These responses indicate that Chinese and Taiwanese partners also need to spend much time in negotiations and communications, although they shared most common cultural characteristics. A lack of trustworthy relationships is cited as the main reason for cultural conflicts, which reflects the fact that the successful Sino-Taiwanese JVs did not stem from similar cultural traits, but from potential business profitability. However, this provides an important view of business protection by ensuring partner's JV plan, goals, and objectives in order to achieve a long-term JV success.

Table 7.7: Cultural Dissimilarities between Taiwanese and Chinese JV partners

	Very important reason		Important reason		Minor reason		Not an important reason		Not a reason	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Different views of profitability	5	3.8	65	49.2	34	25.8	17	12.9	10	7.6
Untrustworthy relationship even though we share similar culture	5	3.8	68	51.5	35	26.5	15	11.4	8	6.1
Cultural difference existed in managerial system	2	1.5	48	36.4	57	43.2	15	11.4	8	6.1
Different ethical attitude to achieving venture goals	10	7.6	36	27.3	60	45.5	19	14.4	6	4.5
Need more time on negotiation towards strategic operation	8	6.1	57	43.2	46	34.8	15	11.4	5	3.8
Cultural differences affect staffs relationships	7	5.3	31	23.5	70	53	18	13.6	5	3.8

7.3.1.7 Ownership of Sino-Taiwanese JVs

In the context of strategic ownership, various proportions of equity shares were a way to gain control on overall JV activities. A great number of Taiwanese respondents answered that their parent firms have large equity shares (53%), and only 9% of total respondents selected a 50/50 equity position, which might indicate that most Taiwanese firms would like to prevent decision-making deadlock while carrying out JV tasks (Table 7.8). The findings show that Taiwanese JV firms are more likely to use different approaches to influence the importance of JV operational and managerial decision-making outcomes. Most Taiwanese parent firms prefer to adopt majority ownership in order to influence important operational and managerial decisions in JV formation. The results may also indicate that Taiwanese investors have a strong tendency to exercise their dominant position in JVs so as to maintain control over and gain bargaining power in every aspect of JV projects.

Table 7.8: Ownership Allocations

	Taiwanese Parent Firm		Subsidiary of Taiwanese Parent Firm		Sino-Taiwanese JV		Subsidiary of China Parent Firm		China Parent Firm	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Cost of Investments for JV	24	18.2	55	41.7	33	25	7	5.3	11	8.3
Capitals Budget	11	8.3	41	31.1	57	43.2	7	5.3	14	10.6
Sales Target	16	12.1	30	22.7	61	46.2	7	5.3	16	12.1
Pricing Policy	18	13.6	25	18.9	65	49.2	8	6.1	14	10.6
Production Process	8	6.1	25	18.9	63	47.7	15	11.4	16	12.1
Product Quality Control	13	9.8	31	23.5	58	43.9	12	9.1	16	12.1
Management System	22	16.7	37	28	54	40.9	3	2.3	14	10.6
Product R&D	22	16.7	38	28.8	50	37.9	4	3	12	9.1
Manufacture Process	10	7.6	25	18.9	64	48.5	14	10.6	14	10.6

7.3.1.8 Commitments of Taiwanese Parent Firms

The importance of commitments is examined in this section to explain the determination of Taiwanese firms for cooperation on a long-term basis. A large numbers of respondents answered that they are 'willing to send managers to the local operation on a long-term basis' (68%) and 'willing to send engineers to the local operation on a long-term basis' (50.8%), which shows that most of them have the highest degree of commitment to doing business in China in the long-term. This was followed by other factors, such as a 'plan to extend the scale of local operation' (47%); willingness to transfer technology to the local operation' (40%); willingness to establish local design and R&D facilities' (35%). Finally, respondents stated that 'financial assistance is readily available for viable project' (27.1%), and cited willingness to transfer management responsibility to local partners' (23.5%), which can reflect the parent firm's JV commitments (Table 7.9).

It is apparent that firms with a strong commitment will invest more crucial resources in JVs to satisfy their venture partner's needs. The results show that Taiwanese parent firms realise the importance of commitments to JV operations. Therefore, they want to localise their operations in China because they can thereby increase the competitive advantages to compete with potential rivals both locally and internationally. Specifically, because of the complementary concept inherent in a JV, fulfilling commitments allows Taiwanese JV

firms to enhance a JV's performance. Consequently, commitments can be perceived as the main factor in achieving successful JVs (CNFI, 2005).⁶

Table 7.9: Commitments of Taiwanese Parent Firms

	Very important reason		Important reason		Minor reason		Not an important reason		Not a reason	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Willingness to send managers to the local operation on a long-term basis	21	16	69	52	31	24	5	3.8	1	1
Willingness to send engineers to the local operation on a long-term basis	13	9.8	54	41	44	33	11	8.3	3	2
Willingness to transfer technology to the local operation	18	14	34	26	39	30	23	17	10	8
Willingness to establish local design and R&D facilities	15	11	32	24	35	27	29	22	12	9
Financial assistance is readily available for viable project	8	6.1	28	21	57	43	21	16	9	7
Planning to extend the scale of local operation	19	14	43	33	40	30	19	14	4	3
Willingness to transfer management responsibility to local partners	6	4.5	25	19	48	36	35	27	10	8

⁶ There were many Sino-Taiwanese cases in which Taiwanese firms failed because of lack of trustworthy relationships between partners. The survey for Taiwanese firms in China was conducted by the Chinese National Federation of Industry in Taiwan (CNFI), which revealed that many failed Sino-Taiwanese JVs resulted from lack of knowledge of local laws and regulations and opportunistic behaviour from Chinese partners.

7.3.1.9 Financial Performance of Taiwanese Parent Firms

The financial performance of JVs was directly related to the issue of profitability, for instance, cash flow issue, financial strategies, and capital structures would bring the substantial impact on firms' competence and further influence its profitability (Luo, 1998).

Overall, Taiwanese firms were generally satisfied with their JV financial performance based on financial performance results (Table 7.10), for instance, gross profit margins (31%); return on total assets (34.9%); sales turnover (40.1%); rate on growth sales (34.9%); production process (23.5%); market shares (25.8%); brand recognition (28.1%); export target (34.1%); and labour productivity (30.3%). This may indicate that Taiwanese firms are still endeavouring to penetrate the Chinese market and to keep exploring business opportunities through collaboration. Average performance seems to not be as effective as expected, but Taiwanese firms are progressively improving business tactics from the experience gained from cooperating with Chinese partners. During the data analysis, it was found that a great number of respondents had given neutral answers in the questionnaires when ranking their performance in JVs.⁷ Nevertheless, it still gives some indication that most Sino-Taiwanese JVs are performing at a satisfactory level.

⁷ This situation could be explained by the Chinese collectivistic character, which was profoundly influenced by the Confucianise concept of maintaining individuals in neutral positions in different circumstances.

Table 7.10: Satisfaction with JV's Financial Performance

	Very poor		Poor		Average		Good		Excellent	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Gross profit margins	3	2.3	15	11.4	68	51.5	35	26.5	6	4.5
Return on total assets	5	3.8	15	11.4	61	46.2	38	28.8	8	6.1
Sales turnover	3	2.3	13	9.8	58	43.9	46	34.8	7	5.3
Rate of growth sales	5	3.8	8	6.1	67	50.8	41	31.1	5	3.8
Production process	8	6.1	25	18.9	63	47.7	15	11.4	16	12.1
Market shares	2	1.5	18	13.6	61	46.2	29	22	5	3.8
Brand name recognition	3	2.3	12	9.1	46	34.8	27	20.5	10	7.6
Export target	1	0.8	7	5.3	47	35.6	42	31.8	3	2.3
Labour productivity	1	0.8	3	2.3	73	55.3	34	25.8	6	4.5

7.3.2 Non-Financial Performance of Taiwanese Parent Firms

Unlike financial performance measurements in JV profitability, strategic non-financial attributes such as relationship-building, product quality development, or learning ability might relate to JV success. Table 7.11 shows that those variables had a positive performance in different aspects of JV, including: importance of inter-partner working relationship (34.9%); ability for production quality control (35.6%); ability for product R & D (27.3%); whether the parent firms achieved joint goals (27.3%); competitiveness in the market (32.6%); ability to develop foreign market (34.8%); ability to develop domestic market (28.1%); and customer service (34.1%). The results suggest that Taiwanese firms do consider the importance of non-financial objectives because this strengthens their

competitive advantages and allows them to cooperate with partners more efficiently and thereby achieve satisfactory performance in China.

Table 7.11: Non-Financial Performance

	Very poor		Poor		Average		Good		Excellent	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Importance of interpartner working relationship	0	0	4	3	72	54.5	41	31.1	5	3.8
Ability to influence production quality control	0	0	21	15.9	56	42.4	42	31.8	5	3.8
Ability to influence products R & D	0	0	22	16.7	61	46.2	27	20.5	9	6.8
Whether the parent firms achieved the joined goals	2	1.5	13	9.8	70	53	31	23.5	5	3.8
Competitiveness in the market	0	0	17	12.9	64	48.5	42	31.8	1	0.8
Ability to develop foreign markets	2	1.5	9	6.8	44	33.3	42	31.8	4	3
Ability to develop domestic market	3	2.3	23	17.4	55	41.7	29	22	8	6.1
Customer service	1	0.8	6	4.5	72	54.5	41	31.1	4	3

7.3.3 Summary of Favourable and Unfavourable Factors for JV

Based on the frequency analysis, table 7.12 and 7.13 summarised the favourable and unfavourable factors for JVs from Taiwanese firms’ perspective. In each favourable and unfavourable factors category, there are only three most important reasons have been shown in the tables to understand the positive and negative factors which make China an attractive or unattractive investing location to form a JV.

Table 7.12: Favourable Factors for JV from a Taiwanese Business Perspective

Favourable Factors	Very Important Reason		Not Important Reason		
	1	2	3	4	5
	% of response	% of response	% of response	% of response	% of response
Economic Pull Factors					
Size & Potential Market	31.8	46.2	4.5	9.1	3
Availability of Abundant Cheap Labour	18.2	39.4	25	7.6	6.8
Low Initial Capital Investment	12.1	33.3	28	16.7	4.5

Capabilities of Chinese Partner Factors					
To Access Chinese Market	16	41	20	13	5.3
To Find Distribution Channels or Routes	6.8	33	24	21	8.3
To Achieve Economies of Scale	3	30	27	22	9.1
Cultural Similarities & the Importance of Guanxi Factors					
Sharing a similar culture and speaking the same language	12.9	59.1	17.4	6.8	3
Enhanced welcome by the Chinese firms	5.3	44.7	31.8	13.6	2.3
Ease of building guanxi relationships	3.8	28.8	41.7	18.9	6.1
Commitments Factors					
Willing to send managers to the local operation on a long-term basis	16	52	24	3.8	1
Willing to send engineers to the local operation on a long-term basis	9.8	41	33	8.3	2
Plan to extend the scale of local operation	14	33	30	14	3

In Table 7.12, the economic pull factors category such as 'size & potential market', 'availability of abundant cheap labour', and 'low initial capital investment' highlight the attractiveness of China's investment environment, which reveals that China is the source of market opportunities and resources. In other words, the important statistical evidence above clearly illustrates the significance of JVs in improving Taiwanese firms' competitive position and marketing development by collaborating with local Chinese partners. In the cultural similarities & the important of guanxi category, 'sharing a similar culture & speaking the same language', 'enhanced welcome by the Chinese firms', and 'ease of building guanxi relationships' are the most important reasons for Taiwanese firms which imply that guanxi can be a major way for Taiwanese firms to seek scarce resources, since information and data are limited in China. For the commitment factors category, 'willing to send managers to the local operation on a long-term basis', 'willing to send engineers to

the local operation on a long-term basis', and 'plan to extend the scale of local operation' are the primary reasons for Taiwanese firms to set up a JV with Chinese partners. It is apparent that firms with a strong commitment will invest more crucial resources in JVs to satisfy their venture partner's needs. The results show that Taiwanese parent firms realise the importance of commitments to JV operations. Therefore, they want to localise their operations in China because they can thereby increase the competitive advantages to compete with potential rivals both locally and internationally. Specifically, because of the complementary concept inherent in a JV, fulfilling commitments allows Taiwanese JV firms to enhance a JV's performance. Consequently, commitments can be perceived as the main factor in achieving successful JVs (CNFI, 2005).

Table 7.13: Unfavourable Factors for JV from a Taiwanese Business Perspective

Unfavourable Factors	Very Important Reason					Not Important Reason				
	1	2	3	4	5	1	2	3	4	5
	% of response	% of response	% of response	% of response	% of response	% of response	% of response	% of response	% of response	% of response
Economic Push Factors:										
High labour cost	33.3	35.6	12.9	10.6	6.1					
High cost of human resource management	39.4	31.1	9.1	10.6	6.1					
Business inability to survive in domestic market	34.8	25.8	12.9	12.9	9.1					
Chinese Market Instability Factors										
Constant changing regulations & institutions	14	52	20	9.8	2					
Compulsory regulations are not applicable nationwide	6.1	48	30	11	3					
Existing regulations are not effectively implemented nor executed	9.8	41	33	9.8	4					
Cultural Dissimilarities Factors										
Untrustworthy relationships existed even though we shared a similar culture	3.8	51.5	26.5	11.4	6.1					
Different view of profitability	3.8	49.2	25.8	12.9	7.6					
Need for more time on negotiation towards strategic operation	6.1	43.2	34.8	11.4	3.8					

Table 7.13 indicates that Taiwanese JV invest in China may be largely encouraged by the undesirable factors of the Taiwanese market, for instance, 'high labour cost', 'high cost of human resource management', and 'business inability to survive in domestic market'. On the other hand, 'constant changing regulation & institutions', 'compulsory regulations are not application nationwide', and 'existing regulations are not effectively implemented nor executed' are the most important three reasons in the Chinese market instability category. These factors may suggest that, if Taiwanese firms can combine their unique advantages, they may reduce the impact of uncertainties on firms' performance. Although Taiwanese and Chinese have shared common cultural background, there are some cultural dissimilarity factors existed among them. In Table 7.13, 'untrustworthy relationships existed even though we shared a similar culture', 'different views of profitability', and 'need for more time on negotiation towards strategic operations' are found to be the main reasons for cultural conflicts. These factors may reflect the fact that the successful Sino-Taiwanese JVs did not stem from similar cultural traits, but from potential business profitability. However, this provides an important view of business protection by ensuring partner's JV plan, goals, and objectives in order to achieve a long-term JV success.

7.3.4 Sino-Taiwanese JV Motivations: Factor Analysis

Factor analysis has been used in a number of studies to find out the real strategic motives for international JV formation (Glaister and Buckley, 1996; Pearce, 2001; Calantone and Zhao, 2001), since research on JVs is complicated (Luo, 2000). After a systematic

examination, the findings summarised in Table 7.14 yield several important insights that reveal major motives for Sino-Taiwanese JVs regarding economic, cultural, political, and JV managerial and operational issues (see Appendix E). The author used factor analysis to capture the positive variables in each extracted factor loading groups to justify their importance correlation relationships among them. The table of rotated factor analysis was presented to reveal the possible factors that influenced JV decisions in China by carefully examining each significant component. Table 7.14 presents the factor loadings for the 68 items on the 17 extracted components that are generated from the factor analysis, and shows that these significant factors might be perceived as motives for Taiwanese firms to choose JV strategy. In addition, McQuitty simple correlation linkage analysis will be carried out to understand what factors that will go together from a large correlation matrix in factor analysis (see Appendix E).

7.3.4.1 Strategic Motive 1: Push Economic Motive (Factor 1, 10, 12 and 17)

Through the rotation process in Factor Analysis⁸ (Lewis-Beck, 1994), the first factor was extracted and is shown on the first column with high positive loadings (see Table 7.14 in Appendix E). The first factor loading group can be seen as a factor relating to the deterioration of Taiwan's economic environment, because these loading components had strong correlation with **Factor 1**, for example, *difficult for business to survive in domestic market* (0.8434), *strict environmental laws* (0.7663), *lack of Taiwanese government*

⁸ Pett, Lackey, and Sullivan (2003) suggest that factor rotation is the process to make factors about its origin to achieve a simple structure and theoretically more meaningful factors solutions (p. 132).

financial support (0.7431), *small size of Taiwanese domestic market* (0.6941), *lack of financial support from local banking institutions* (0.6811), *high cost of acquiring raw material in Taiwan* (0.6621), *lack of support from Taiwanese government and local authorities* (0.6059), *competitiveness in Taiwanese market* (0.5389), *high cost of human resource management* (0.4981), *high labour cost* (0.5639), and *appreciation of Taiwanese currency* (0.4265).

In addition to the 'economic push' variables in **Factor 1**, in **Factor 10**, which was loaded with the negative value variables of *competitiveness in Taiwanese market* (-0.4324).

Factor 12 was loaded with components of *high cost of human resource management* (0.6540), *high labour cost* (0.6254), and *appreciation of Taiwanese currency* (0.47), which all shared the similar characteristics as **Factor 1**. As for **Factor 17**, this was loaded with decreasing of exporting orders (0.7342). It was recognised that the higher the loadings, the more factors would correlate to important components in relation to the characteristics of **Factor 1**. Based on Table 7.15, the eigenvalues⁹ of **Factor 1**, **12** and **17** had high and positive values of 6.399, 2.449 and 1.481 as well as high communalities¹⁰ of those variables. Taking that those loadings in **Factor 1**, **12** and **17** clearly showed that the unsatisfactory Taiwanese economic environment was the possible motive for forming the strategic JVs.

⁹ The eigenvalues are greater than 1.00, which would mean that these factors would account for more than their share of the total variance in the items (Pett et al., 2003, p. 116).

¹⁰ Communalities can show how much of the variance in the variables has been accounted for by the extracted factors (Pett et al., 2003).

Additionally, from the correlation matrix table (see Table 7.17, p. 337), push variables highly correlate with other set of variables, such as commitment, partner capabilities, and cultural issues. Such results are consistent with the previous study of strategic alliance motives from Buckley and Glaister (1996), because they specified that the undesirable economic environment would motivate firms to cooperate as a mean to reduce costs and increase competitive competencies.

The evidence was found in the factor analysis proved that the influences from push (undesirability of Taiwan's economic environment) and pull factors (attractive Chinese market) would profoundly trigger the motive of Taiwanese firms for the choice of JV when accessing the Chinese market. As Strategic Motive 1 shows, in support of **Hypothesis 1.1**, that deterioration of Taiwan's economic environment increased the likelihood of forming a JV when entering the Chinese market.

7.3.4.2 Strategic Motive 2: The Cultural Influence Motive (Factor 2)

In Table 7.14, the second factor group could be related to cultural influence considerations by its high positive factor loadings, which included: *different ethical attitude to achieve venture goals* (0.8464), *cultural difference existed in management system* (0.8051), *untrustworthy relationship even with a shared similar culture* (0.7862), *require more time on negotiation towards strategic operations* (0.7848), *culture differences affect staff's relationships* (0.7584), and *different views of profitability* (0.6803). In **Factor 2**, the

cultural influence indicated the differences of culture would affect JV performance and ongoing cooperative processes. It was clear that the **Factor 2** had a high value of communalities in those cultural differences variables (see Table 7.16 in Appendix E). Additionally, high eigenvalues of 5.316 were expected which might reflect the fact of cultural differences as one of the factors in the analysis.

The correlation matrix table (see Table 7.17) shows that the variables between cultural differences and the JV partner's capabilities as well as cultural similarities are highly positively correlated. To some extent, it might indicate that Taiwanese parent firms have a conflict role in cultural identity, because they shared similar traits with Chinese partners, but have deeply rooted individual national cultural values and attitudes, which may influence Sino-Taiwanese JV development and performance.

The evidence from factor analysis proved that cultural influences would discourage Taiwanese firms to form a JV due to the potential conflicts in JV operations and management. As Strategic Motive 2 shows, in support of **Hypothesis 4** and **4.3**, that cultural influence increases the likelihood of management and operation conflicts, therefore, increases the likelihood of Taiwanese firms to gain control over the operation and management.

7.3.4.3 Strategic Motive 3: The Importance of Guanxi

The **Factor 3** with high positive loadings on culturally relevant variables included: *easy to build up trustworthy relationships* (0.8160), *appreciate Chinese employee's achievements* (0.7336), *understand Chinese partner's thought and ethnic cognition* (0.7076), *similar communication styles* (0.6813), *guanxi become an important factor for Taiwanese firms* (0.6808), *more welcome by the Chinese firms* (0.6667), *easy to build up guanxi relationships* (0.6401), and *advantages of culture similarities and share same language* (0.5721). **Factor 3** had eigenvalues of 5.262, and in the communalities table 7.15 (see Appendix E) those variables had a high extraction value, which might be perceived as an important factor for Taiwanese investors' JV motives. Moreover, in correlation matrix (see Table 7.15), these cultural similarity variables are highly correlated to the variables from commitment and partner capabilities, which suggests that partners having a similar culture may create a strong relationship to work together to achieve JV goals.

The evidence was found in this research proved that similar culture and language helped Taiwanese firms to build up the importance of guanxi with Chinese partners and increased the possibility of forming a JV. Therefore, Strategic Motive 3 shows, in support of **Hypothesis 2, 2.1, 2.2, 3, 3.1, 3.2 and 3.3**, that Taiwanese firms rely on their similar language and culture advantages as well as their strategic guanxi networks to increase their competitive advantages and positions under the Chinese market environment. Taken together, the information in Frequency Table 7.6 offers strong support for the idea that

similar culture and language can help Taiwanese firms easily construct guanxi networks in order to overcome anticipated risks and problems for the duration of the collaboration.

7.3.4.4 Strategic Motive 4: Partner's Capabilities for JV (Factor 4, 11, 15 and 16)

In the third column of the rotated factor analysis table (Table 7.14), **Factor 4** was loaded with positive variables of venture partner's capabilities, such as follows: *to lower the Chinese political risks* (0.7988), *to get the support of the local Chinese financial institutions'* (0.7536), *to lower JV overhead investment* (0.6598), *to overcome Chinese local laws and regulations* (0.6317), *to recruit skilled Chinese labour* (0.5933), *to seek appropriate Chinese venture partner via guanxi networks* (0.5733), *to access Chinese raw material* (0.5375), *to use or access partner's technological capabilities* (0.4463), *to achieve economies of scales* (0.4346), and *to access Chinese market* (0.4027). **Factor 4** is supplemented by other Factors, for instance, **Factor 11** was also loaded with important variables, *to find a distribution channel or routes* (0.6891), *to link with suppliers* (0.6770), and *to achieve economies of scale* (0.5389). **Factors 15** and **16** were loaded with *to recruit Chinese skilled labour* (0.4265), *to use partner's technology capabilities* (0.4235), *to use partner's established facility* (0.5781), and *to access Chinese market* (-0.4489). **Factors 4, 11, 15** and **16** had high communalities (see Table 7.16) and eigenvalues of 4.665, 2.218, 1.711, and 1.593 (see Table 7.15). Those factor loadings in **Factor 4** might reveal that the Chinese partners' capabilities were the main reason for Taiwanese firms to utilise the JV entry strategy. Also, in the correlation table (Table 7.17), the venture partner's capabilities

positively correlated to variables of commitments, cultural similarities, and economic special treatment. Taking those factor loadings in **Factor 4, 11, 15, and 16** would reveal the characteristics of significant JV partner's capabilities.

The evidence found in this study was proved that Chinese partner's capability was one of the important factors to help Taiwanese partners to access the Chinese market. As Strategic Motive 4 shows, in support of **Hypothesis 1.4, 1.5 and 3**, that Taiwanese firm's motive to form a JV are largely due to Chinese partner's capabilities which reduced their uncertainty as well as enhance their competencies when entering into the Chinese market.

7.3.4.5 Strategic Motive 5: Attractiveness of Chinese Economy (Factor 5, 15, and 17)

Table 7.12 summarised **Factors 5, 15, and 17**, which shared high positive loading variables, such as: *lower capital investment cost* (0.7572), *cheap and available labour* (0.7385), *robust infrastructure in special economic zone* (0.7305), *availability of low cost resources* (0.7129), and *global economic downturn* (0.5925). **Factors 15 and 17** were particularly loaded with variables of *size and potential of the Chinese market* (0.6705) and *special economic environment* (0.4684), (0.549). Regarding high values in communalities of those variables related to advantages of the Chinese market (see Table 7.14) and the eigenvalues for **Factors 5, 15, and 17** were 3.656, 1.711 and 1.481 in total variance (see Table 7.15), these factors were significant for Taiwanese investors' motives in choosing JV strategy. With the close correlation with partner capabilities, commitments, uncertainty

conditions, and cultural similarities, it may reflect the fact that the attractiveness of the Chinese economic environment is not the only reason that attracts Taiwanese firms to invest in China or form a JV with a Chinese partner because different conditions and scenarios need to be well planned in order to make a foreign investment decision.

According to the evidence from factor analysis, the potential of the Chinese market would increase the chances of Taiwanese firms forming a JV when there are market opportunities. As Strategic Motive 5 shows, in support of **Hypothesis 1.2** and **1.3**, that Taiwanese firm's motive for JV is increased because of the potential of Chinese economic environment.

7.3.4.6 Strategic Motive 6: Institutional Influences (Factors 6 and 7)

The sixth Factor was also loaded with positive values of variables which include relating to radical changes of Chinese institution characteristics, such as: *some special regulations have limited Taiwanese business development* (0.7799), *preferential treatments from central and local governments* (0.7447), *unsatisfactory about formal regulation promulgation* (0.7442), and *unavailability of market information* (0.6301). Additionally, **Factor 7** shared same variance on *compulsory regulations are not applicable nationwide* (0.8328), *existing regulations are not effectively implemented nor executed* (0.7910), and *constant changing regulations and institutions* (0.7497). In **Factors 6** and **7**, the eigenvalues accounted for 3.388 and 2.935, which were significant to total variance. Table 7.15 clearly shows the high communalities which might account for complex correlations

for components 6 and 7. Hence, **Factor 6** together with **Factor 7** might be labelled as the motive for JV in China regarding the issue of institutional instability. In Table 7.17, these represent a positive correlation with the economic push and pull variables as well as partner capability, which shows that forming a JV with local partners can reduce the environmental uncertainties for Taiwanese firms regarding their political relationship.

According to the evidence in this study, it was proved that Chinese economic regulations did produce certain level effect on Taiwanese firms. As Strategic Motive 6 shows, in support of **Hypothesis 1.2, 3.3 and 4.1**, that the influence of Chinese economic treatments and institutions increase the likelihood of Taiwanese firms to form a Sino-Taiwanese JVs when entering into the Chinese market.

7.3.4.7 Strategic Motive 7: Political Instability (Factor 2, 9, 12, and 13)

The analysis was briefly to see the needed for JV to Taiwanese investors regarding to the negative effect of Chinese government's attitude and policy on their business operations in China. **Factors 2, 9, 12 and 13** were loaded with positive values of variables (see Table 7.14), which included: *inefficiency of bureaucratic system* (0.4291) of **Factor 2**; for **Factor 9** that *investments can be freely exchanged into other currency* (0.673), *serious corruption among central and local governments* (0.746), *inefficiency of bureaucratic system* (0.669), and *financial assistance from local Chinese governments* (0.5063) as well as for **Factor 12** (0.4115); **Factor 13** was loaded with *cooperation with local government to reduce risks* (0.7246); *active promotion of the Chinese investment environment to Taiwanese*

entrepreneurs (0.5638), and *financial assistance is readily available for viable projects* (0.4785). In a communalities table (Table 7.16), **Factor 2, 9, 12, and 13** had eigenvalues of 5.316, 2.536, 1.978, and 1.961 which were significant in the analysis. The correlation matrix table reveals the inter-correlation between variables of **Factors 9 and 13** as positively correlated, which underlines that China's political factor may account for JV motives for Taiwanese firms (see Table 7.17). In addition, it shows that the variables of political instability are positively correlated to partner capabilities, commitment, and all cultural variables. This may suggest that collaborating with a reliable partner is essential for Taiwanese firms to achieve their businesses objectives in China.

The research evidence proved that Taiwanese would form a JV with Chinese partners in response to the political tension between Taiwan and China. As Strategic Motive 7 shows, in support of **Hypothesis 1.5 and 4.1**, political tension between Taiwan and China increases the likelihood of Taiwanese firms forming a Sino-Taiwanese JVs to enter the Chinese market.

7.3.4.8 Strategic Motive 8: Commitments Motive (Factor 8, 10, and 14)

Factors 8, 10, and 14 loaded with high positive values of variables, for instance, **Factor 8** was loaded with variables of *willing to send managers to the local operations on a long-term basis* (0.7753) and *willing to send engineers to the local operations on a long-term basis* (0.76). Similarly, **Factor 10** had factor loadings, with: *willing to transfer*

management responsibility to local partners (0.6745), *plan to extend the scale of local operation* (0.6094), and *willing to transfer technology to the local operations* (0.5860).

Factor 14 was loaded with venture commitment variables of *willing to provide training for local workers* (0.7114) (see Table 7.14). These variables had high communalities (see Table 7.16), and the eigenvalues of the component **8**, **10**, and **14** had 2.654, 2.449, and 1.716 (Table 7.15), respectively. The correlation table (Table 7.17) shows that those variables have on average correlated with the variables in economic push and pull categories and partner capabilities. Taking these components **8**, **10**, and **14** together one could interpret that the firms' commitments were significant factors for JV motives.

According to the research results, which was proved that commitment would be one of main factors that motivate Taiwanese firms to employ the JV strategy. Therefore, Strategic Motive 8 shows, in support of **Hypothesis 4.2**, that commitments towards collaboration projects would enhance the likelihood of Taiwanese firms to adapt the JV in the Chinese market.

Table 7.17 Correlation Matrix

Correlation	size & potentia market	lower capital investment cost	cheap labour cost & availability	resource availability with low costs	reuse the Taiwanese old machinery equipment	robust infrastructure	special environment factor	financial support from Taiwan	global economic downturn	difficult for business to survive in domestic market	small size of domestic market
size & potentia market	1										
lower capital investment cost	-0.178707037	1									
cheap labour cost & availability	-0.325355398	0.741766068	1								
resource availability with low costs	-0.0719548	0.487899481	0.444294247	1							
reuse the Taiwanese old machinery equipment	0.088718164	-0.197169181	-0.128714879	-0.149456604	1						
robust infrastructure	-0.035792533	0.411421074	0.342427338	0.518266092	-0.196123	1					
special environment factor	0.152318024	0.142652383	0.269638061	0.214910859	0.070219447	0.285787711	1				
financial support from Taiwan	0.028148196	-0.005822931	-0.07947258	-0.142843965	0.511092158	-0.094905874	0.031733633	1			
global economic downturn	-0.153711849	0.340833728	0.458711397	0.320967643	0.091995525	0.358238069	0.229138639	0.245555429	1		
difficult for business to survive in domestic market	-0.056861357	-0.042639913	-0.024865073	-0.200629023	0.649846932	-0.198972141	0.038963806	0.556854796	0.081414403	1	
small size of domestic market	0.044407319	-0.003724219	-0.098470976	-0.119462042	0.45916903	-0.152262766	0.109599125	0.548603904	0.002402493	0.645813676	1
strict environmental law	0.061250589	-0.175547088	-0.118693958	-0.055500894	0.599928921	-0.022298265	0.091734824	0.396916104	0.109975852	0.67620846	0.50999977
decreasing of exporting orders	-0.067225852	0.289488612	0.298968098	0.35063234	-0.075227653	0.285713578	0.313308151	-0.094547618	0.155624222	-0.075855341	-0.051035453
high cost of acquiring raw material in Taiwan	-0.013471682	0.044589528	0.018150871	0.001246776	0.490773799	-0.054967254	0.017491009	0.501142364	0.114609346	0.522058746	0.353460638
competitiveness in Taiwanese market	-0.015941088	0.014459076	-0.034347391	-0.059750241	0.320565359	-0.207057236	-0.090041543	0.427721674	0.138276808	0.362601279	0.563094353
appreciation of Taiwanese currency	-0.051030502	0.033931683	-0.006031157	0.092093958	0.342063883	0.025411295	0.083082477	0.358813264	0.004864294	0.251917158	0.350183957
high labour cost	-0.083223484	-0.06589644	-0.097477742	0.028285521	0.328692647	-0.048155376	-0.015317933	0.335225494	0.017233697	0.47955064	0.305187666
lacks of support from government and local authority	0.071646517	-0.060343845	-0.10814473	-0.078858401	0.448082333	-0.107861618	-0.022148221	0.321272544	0.014512559	0.438954761	0.335307368
lack of Taiwanese government financial support	0.131017927	-0.096832616	-0.12483447	-0.171630053	0.603702311	-0.238485253	-0.100002663	0.511121084	-0.003973709	0.563877221	0.46778979
high cost of human resource management	-0.021622097	-0.08498504	-0.103955998	0.016608966	0.286450435	-0.109489552	0.09004197	0.38615921	-0.061556591	0.420554162	0.29081733

to lower overhead investment	-0.097647514	0.281790582	0.257126701	0.21508238	-0.000813098	0.211612268	0.207545226	0.106410666	0.026062089	-0.002410233	-0.008546809
to access Chinese market	-0.046494039	0.154763641	0.174341518	0.117548139	-0.182136274	0.096051881	0.138820814	0.044912805	-0.077087725	-0.121020932	0.042720846
to find a distribution channels or routes	0.034516181	0.061691817	-0.031427499	-0.01935807	-0.063632921	-0.042193993	-0.031668712	0.159327375	-0.078305037	0.060659754	0.143890825
to achieve economic scale	-0.091492488	0.088955821	0.04022529	-0.023708832	0.103610996	-0.069717183	0.112630158	0.31169694	0.059013343	0.282288616	0.195625883
to link with suppliers	0.035085346	0.066311709	0.021939507	-0.083686004	0.221105132	-0.057658652	0.088805719	0.303296893	-0.040436608	0.382619643	0.266611733
to use partner's established facility	0.001624882	0.321680677	0.219271809	0.230757348	0.073671811	0.215887478	0.255270355	0.068916264	0.107335947	0.150000074	0.117332605
to use partner's technology capabilities	-0.042368191	0.216923297	0.165243604	0.215659847	0.223142321	0.088152763	0.134466203	0.286839528	0.220271505	0.297174103	0.135973461
to overcome local law and regulations	0.066431553	0.111314182	0.032033572	0.022133169	-0.058912237	-0.099087476	0.068042975	0.189761839	0.084220156	-0.012297974	0.189388679
to lower the political risk	0.022488685	0.057973136	-0.025147604	0.119833762	-0.109115096	0.061000936	0.016221261	0.139131188	0.120044448	-0.076858361	0.104583205
to get the local financial institutions support	-0.12428269	0.266355382	0.215629165	0.229812059	-0.085481511	0.191690192	0.119767132	0.100159761	0.088456022	-0.134159409	-0.04154402
to access raw materials	0.020388328	0.364406771	0.252241264	0.161707114	0.051780109	0.134974892	0.216280027	0.277762308	0.066206596	0.181168225	0.140468189
to recruit skilled labour	0.082378239	0.270867515	0.242581657	0.095299189	0.070580896	0.118913245	0.312945625	0.16301324	0.092575682	0.195486206	0.145561981
willing to send managers to the local operation on a long term basis	-0.065728718	0.222497972	0.17641102	0.102029447	0.061946008	-0.041172567	0.04223856	0.193292279	0.178087754	0.105209003	0.223771136
willing to send engineers to the local operation on a long term basis	-0.079446806	0.007669628	0.022660243	-0.106613238	-0.0015436	-0.224836416	-0.076662145	0.206230585	0.023560362	0.031375766	0.192607915
willing to provide training for local workers	-0.290646588	0.158106924	0.260811134	-0.037359359	0.037198983	-0.056720671	0.025364531	-0.071124923	-0.073024415	0.046941179	0.00112167
willing to transfer technology to the local operation	-0.124256181	0.019726706	0.110448638	-0.127967055	0.258064548	-0.05926477	0.151323617	0.246846516	0.010604746	0.392292628	0.200714327
willing to establish local design and R&D facilities	-0.03304216	0.039303149	0.102315285	-0.035166808	0.35148827	-0.074998573	0.074678498	0.276934394	0.10196901	0.354097463	0.2823227
financial assistance is readily available for viable project	-0.054476456	0.198622777	0.217296848	0.175828694	-0.086754456	0.196514861	0.121812285	0.004437607	-0.005679589	-0.044541275	-0.003405835
plan to extend the scale of local operation	-0.041508518	-0.078271435	-0.071322487	-0.051860617	0.114458626	-0.052543192	0.121143513	0.054620184	0.010652509	0.048863376	0.039325556
willing to transfer management responsibility to local partners	0.051696577	0.016558935	-0.003665927	0.003009549	0.196002891	-0.032309076	0.16527508	0.245877429	0.082341704	0.162178854	0.046395395
unavailability of market information	-0.069265237	0.225905471	0.173792794	-0.019844819	-0.15480544	-0.099515105	0.019772016	0.039456006	0.105217815	-0.168784809	-0.054268464

unsatisfactory about formal regulation promulgation	0.038209964	0.230664123	0.097790463	0.032308492	0.125387587	-0.029003319	0.042594489	0.107713164	0.085757814	-0.114033773	0.075792135
unsatisfactory of special regulations have limited Taiwanese business development	0.046839001	0.220518303	0.162522718	0.051794012	0.144240902	0.036005501	0.151218481	0.134111447	0.106692247	-0.087706185	-0.012218271
existing regulations are not effectively implemented nor executed	0.08911842	0.209298898	0.191942334	0.140939063	-0.00851206	0.036971268	0.142932472	-0.059309744	0.041974723	-0.04658209	0.088381342
compulsory regulations are not applicable nationwide	0.047854927	0.163893409	0.128324826	0.175432626	-0.076818376	0.138649	0.077474015	-0.017806696	0.107619834	-0.05687274	0.099396273
constant changing regulations and institutions	0.13455134	0.197369945	0.06381556	0.103581721	-0.099743881	0.052553029	-0.040081593	-0.086449883	0.106102772	-0.018115257	0.061943413
seeking appropriate Chinese venture partner via guanxi	0.049733992	0.137076712	0.19065226	0.123056616	0.123142241	-0.02395258	0.192028785	0.231479577	0.164948793	0.090985639	0.268317673
Advantages of culture similarities and share same language	0.118874386	0.20680779	0.229259262	0.044096488	-0.068397075	0.12811673	0.140846715	0.099162342	0.089721305	0.000962025	0.144131188
Easy to build up trust relationship	0.150052904	-0.056538935	-0.085631562	-0.047612862	0.038376585	0.041125387	0.159774457	0.14240981	-0.010727429	0.074956957	0.24614526
Easy to build up interpersonal relationship	-0.034641496	0.136911756	0.012799715	-0.04176235	-0.027555048	0.105675818	0.054971789	0.168816991	-0.026764169	0.148509723	0.247011241
Similar communication styles	0.103282642	0.042731527	-0.001156424	-0.013331724	0.138282255	0.045681401	0.116322316	0.230357646	-0.003627119	0.146698016	0.242313739
More welcome by the Chinese firms	-4.40071E-17	0.264419087	0.201595446	0.073494257	0.118663363	0.177544033	0.024063067	0.244181649	0.268567601	0.056387269	0.115165152
Guanxi becomes an important factor for Taiwan firm	-0.075276498	0.146296892	0.140193669	0.044550109	0.152910406	0.083182526	-0.013145714	0.242911725	0.21677425	-0.003911683	0.206826912
understand China partner's thought and ethnic cognition	-0.010837621	-0.01681459	0.049953895	-0.056669461	0.234181623	-0.083461098	0.050551608	0.358818755	0.090392417	0.306739036	0.394566646
understand Chinese employee's achievements	0.040066135	-0.148060222	-0.065863833	-0.140062696	0.232476161	-0.117810555	0.032052739	0.320243519	0.060759307	0.258925703	0.324499775
different view of profitability	-0.040802031	0.232960311	0.192698379	0.088135184	-0.080521457	0.072104906	0.041203145	0.113714844	-0.030492135	0.051564362	0.172748187
not trustworthy relationship even share same culture	-0.05053845	0.119386319	0.033179067	-0.03462658	0.054368111	-0.092112706	-0.011053724	0.142096701	-0.103340811	0.083699231	0.154414339
cultural difference existed in management practice	-0.075863345	0.066137389	0.074034234	-0.097792433	-0.015792595	0.019034987	0.08703215	0.133208275	-0.103649972	-0.012483565	0.062561512
different ethical attitude to achieve venture goals	-0.082709629	0.018566048	0.014850026	-0.185909172	0.054291011	-0.103994957	0.116017888	0.085341133	-0.035226339	0.048649026	0.125313167

need more time on negotiation towards strategic operation	-0.077544517	0.101844215	0.061766334	-0.077356901	-0.04527427	-0.094290707	0.109525509	0.094897583	-0.057757969	-0.033829388	0.124357769
cultural difference affect staff relationships	-0.086444455	0.062977497	-0.01412561	0.006782825	0.007980516	-0.079519996	0.074281457	0.163489759	-0.117867806	0.049168061	0.192445595
preferential treatments from central & local government	-0.00565278	0.237382783	0.086984904	-0.059901028	0.029889409	0.10799081	0.049200551	0.07295904	0.120698012	0.009301838	-0.033102587
financial assistance from local government	-0.095707921	0.072844657	0.061081887	-0.089996249	-0.049395671	0.021811464	-0.057572466	0.069725293	0.072295506	0.037441153	0.066948596
investment can be freely exchanged into other currency	-0.164253819	0.20492299	0.137490053	-0.092853608	-0.069161476	-0.038297858	0.004641388	0.084877812	0.141234823	0.040960734	0.139426166
cooperate with local governemnt to reduct risks	-0.191200066	0.204659411	0.134962567	0.092777883	0.033521676	0.013224249	0.050357616	0.194235004	0.045647204	0.011257263	0.183473037
actively promote Chinese investment environment to Taiwanese entreprenurs	-0.082529278	0.246067819	0.187020667	0.135988068	-0.01747904	0.184705775	-0.116469784	0.002533216	-0.058658956	-0.154108775	0.067973183
inefficiency of bureaucratic system	-0.036015394	0.048055042	0.067934731	-0.163990981	0.052181784	-0.072988548	0.019743417	-0.026208472	-0.060078104	-0.011556583	0.097722073
serious corruption among central and local governments	-0.081999534	-0.035310718	0.030497938	-0.175396208	0.082980982	-0.033507251	0.021003182	0.11659789	0.091562405	0.098308296	0.140300381

strict environmental law	decreasing of exporting orders	high cost of acquiring raw material in Taiwan	competitiveness in Taiwanese market	appreciation of Taiwanese currency	high labour cost	lacks of support from government and local authority	lack of Taiwanese government financial support	high cost of human resource management	to lower overhead investment	to access Chinese market	to find a distribution channels or routes	to achieve economic scale
1												
-0.056746527	1											
0.5733636	-0.126765136	1										
0.275079542	-0.131539888	0.347934823	1									
0.254165027	-0.137716478	0.346739147	0.426388758	1								
0.530566074	-0.167560684	0.526962906	0.272580888	0.402131413	1							
0.514190976	-0.163118822	0.430955115	0.33212173	0.379609563	0.452896102	1						
0.461970164	-0.209910074	0.499273524	0.511718878	0.469493008	0.496054028	0.756325556	1					
0.42153415	-0.142472453	0.432609148	0.247958751	0.384088348	0.796646826	0.448826377	0.541795996	1				

-0.004909337	0.045127766	0.107354818	-0.007068958	0.145853106	0.088556645	0.058135809	0.036350669	0.073810027	1			
-0.026236016	0.038564196	0.086676543	0.097464921	0.09041985	0.093303277	0.07662006	-0.011363881	0.125363231	0.489710113	1		
0.047494896	-0.210660342	0.157926164	0.31016418	0.087557417	0.051391573	0.037541523	0.131061199	0.156644692	0.268268217	0.508360867	1	
0.18576462	-0.106797832	0.194041929	0.262207907	0.115813163	0.189656332	0.184552114	0.255066869	0.191900757	0.347484414	0.316489183	0.504910236	1
0.301044123	-0.130614044	0.340220453	0.308661352	0.193393146	0.255091916	0.320555633	0.442095632	0.272309022	0.191442438	0.262880344	0.579214112	0.597917426
0.152419839	0.095802773	0.171419804	0.026259051	-0.002262492	0.029391189	0.047647885	0.113113591	-0.036236554	0.309112586	-0.048535739	0.078413195	0.289628262
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0.084321408	0.095549763	0.045774064	0.154203121	0.359161195	0.282332439	0.134515978	0.249102302	0.142449896	0.413583026	0.459697796	0.483689537	0.368377816
0.181962476	0.260169511	0.128350639	-0.002495943	0.043795892	0.030089811	-0.011509063	0.07637883	0.082536425	0.203144652	0.35021638	0.586254556	0.547240658
0.174421225	0.305936964	0.175606174	-0.035511408	0.070520344	0.050563867	-0.045421824	0.101894847	0.034812347	0.081595918	0.331663437	0.59787501	0.528928813
0.072944594	-0.312987423	0.040689813	0.474227851	0.440316837	0.324746503	0.385512417	0.271682912	0.186145302	0.400188078	0.35338899	-0.088083958	0.080137776
-0.035853595	-0.10276737	-0.021384505	0.391351954	0.462838041	0.387755172	0.339082727	0.290949024	0.303171121	0.335646331	0.207032212	-0.117112858	0.00170317
0.114046904	0.030643522	0.133999322	0.356365148	0.344484106	0.264121672	0.214068577	0.202453931	0.062148942	0.269207953	0.246801701	0.064541786	0.177381455
-0.004993775	0.096296371	0.061300585	0.283022943	0.265246153	0.197064246	0.221213247	0.281566902	0.097872045	0.322619172	0.203470909	0.029475269	0.19303905

0.039660221	0.080684615	0.040886994	0.209736818	0.241794672	0.195268753	0.134110856	0.150680151	0.123276931	0.251460668	0.20191963	-0.01812314	0.205355717
0.098655618	-0.040632961	-0.051912083	0.277852937	0.256387314	0.323486755	0.272663411	0.21548931	0.114607582	0.369432713	0.194962279	0.060154041	0.176693054
-0.068174477	-0.082423756	-0.004419434	0.444800604	0.443571896	0.510943313	0.174429943	0.130996789	0.314042502	0.077817356	0.215568426	0.091875388	0.08858313
0.277998557	0.129450905	0.107140767	0.177028142	0.055874545	0.045123214	-0.043558922	-0.000166724	-0.003780586	0.249050217	0.189361953	0.287003329	0.307508608
0.266690477	-0.07576207	0.00691359	0.369312814	0.163924324	0.086192739	0.233515446	0.154307033	0.175868728	0.342953353	0.241512967	0.127946033	0.224670019
0.35964181	0.252951026	0.06018949	0.204280316	0.232019664	0.238639937	0.130130286	0.174746228	0.084464934	0.32853357	0.109866956	0.295765005	0.40133156
0.325837431	0.209480275	0.152423209	0.165000946	0.269447517	0.202569612	0.249862386	0.282588229	0.070222762	0.176623735	0.350773588	0.265778798	0.40860565
0.01022019	-0.177311006	-0.02565453	0.26929391	0.324536386	0.259984244	0.358644962	0.246727129	0.243249142	0.42041991	0.239103708	0.175608897	0.263380655
0.100912513	0.05872913	0.080099339	0.271452722	0.198336425	0.271030148	0.341667613	0.278570969	0.217674106	0.343007738	0.377297779	0.23856192	0.250005175

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0.428510387	1												
0.502222583	0.688490847	1											
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0.081491416	0.120846027	0.09330164	0.038390734	-0.000309662	1								
0.115561876	0.131797913	0.146358254	0.047551755	0.094342367	0.721968566	1							
0.22811468	0.200615538	0.218447991	0.181509177	0.189862488	0.569718493	0.640874949	1						
0.216429796	0.154234218	0.207377704	0.155974554	0.211353102	0.470524856	0.640669218	0.79113208	1					

0.212938589	0.123990544	0.108303719	0.208704776	0.189214526	0.445995081	0.534631631	0.612540034	0.727866071	1				
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0.077364999	0.382963743	0.282711189	0.043613465	0.017517964	0.134081856	0.127212602	0.128003746	0.004663637	-0.02000156	0.030618942	1		
0.187660882	0.223758939	0.447592459	0.341517299	0.195638725	0.059413712	-0.125596656	0.047234731	-0.011090905	-0.066327457	0.0314654	0.296531434	1	
0.130581069	0.136896407	0.205838579	0.14052609	0.105060194	0.322330604	0.225625845	0.069785065	0.211262306	0.131869041	0.227093944	0.201607798	0.405701521	1
0.294876308	0.132533623	0.417405902	0.314578525	0.227315445	0.024308203	0.105616053	0.17924044	0.106287734	0.046303352	0.05254413	0.147552015	0.251961698	0.222033813
0.217773787	0.239931911	0.373972207	0.169483945	0.161352337	0.194322617	0.180090105	0.23160555	0.157556336	0.119661141	0.127153999	0.1024887	0.096196444	0.124387987
0.181528096	0.133336419	0.205146918	0.060996556	0.101133862	0.401109711	0.394548181	0.341580714	0.491920127	0.352533562	0.376530942	0.173215614	0.145676863	0.437767049
0.097457415	0.165634625	0.308414296	0.177925577	0.167329541	0.286677798	0.265042976	0.27932741	0.387957616	0.263628854	0.317475575	0.267571079	0.310267207	0.460401102

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0.476397309	1		
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0.226767039	0.213012241	0.632302471	1

7.4 Research Limitations

This study provides important insights into Sino-Taiwanese JVs, particularly as it investigates the main motives for Taiwanese firms to choose a JV in China and networking systems as part of their decision to access the Chinese market. Since the study was carried out from quantitative and qualitative perspectives and focused on the Taiwanese firms instead of Chinese partners, there was a possible bias effect on the research results. For example, investigating the Chinese side would uncover their motives for a JV strategy, but it was not possible to reveal the influence of environmental conditions from the Chinese partners' perspective.

The first weakness of this research lay in the process of data collection, because a larger sample is needed for further study of Sino-Taiwanese JVs. It was not possible to collect all feedback from each Sino-Taiwanese JV in China, since there was little control over the collection of questionnaires. The main challenges resulted from the following problems: (1) there were numerous Taiwanese businesses established in various place in China with their identities and contact information hidden, which made it extremely difficult to investigate their JV development and performance; (2) many Taiwanese businesses based in China did not register with Taiwan's authorities, because they wanted to avoid unreasonable punishment for violating foreign investment regulations; (3) Taiwanese businesses and enterprises were reluctant to report or reveal their current investment activities to the Taiwanese government owing primarily to the complex political

relationship with the P.R.C. Because of these research challenges, we only obtained the views of Taiwanese companies through mail surveys since research issues were more relevant to Taiwanese partners.

Moreover, because of the politically sensitive issues, Taiwanese respondents had to answer each question in the questionnaires carefully, although some questions in the questionnaire were confidential and minor biases were expected. We collected additional data from previous surveys done by the Taiwan Research Institution and Chinese National Federation of Industries (CNFI). These data can help us to verify the trend of Sino-Taiwanese JVs and explain the unique nature of Sino-Taiwanese JV as compared to Sino-Western JVs. In particular, CNFI conducts general surveys of Taiwanese firms in China each year, which have been widely used by Taiwan's governmental authorities.

A second weakness was the questionnaire research design and distribution limitation. Because of large geographical regions and differences in economic development and government policies (Chen & Boggs, 1998), Taiwanese firms are established throughout the country. Therefore, it was not possible to cover large geographical regions of Sino-Taiwanese JVs in different industries in China. The questionnaire therefore offered the convenience of covering a general area in China to reach those Sino-Taiwanese JV firms, rather just targeting one or two specific cities. The drawback of a mail survey was that it left open the possibility of human error and problems. For example, inaccurate mailing

addresses or out-of-date information can result in poor rates of response. Quantitative data analysis techniques provided only a brief discussion of the wide range of geographical and statistical data (Fox & Long, 1990; Hays, 1994). Since detailed financial data cannot be obtained, it is hard to accurately determine the performance and profitability of the Sino-Taiwanese JVs.

The bias can be expected in studies of entry strategy, particularly, for international JV motives (Buckley & Glaister, 1996; Luo & Yan, 2001); therefore, the sample that was selected and analysed only contains firms with a Taiwanese background rather than a Chinese one to reflect Taiwanese firms' perspectives on JV's operations, management, and performance. Hence, we believe that Chinese views would provide valuable information towards the performance of Sino-Taiwanese JVs.

The third weakness of this study was the limitation of qualitative research of JVs, because we only interviewed Taiwanese managers and ignored the Chinese partners' point of view. Since the empirical data cannot sufficiently explain the various reasons for forming Sino-Taiwanese JVs, we decided to apply qualitative methods to further investigate the patterns and characteristics of Sino-Taiwanese JVs and their strategic motives, based on international networking. It is not difficult to imagine the reasons for the lack of the Chinese input into the investigation of Sino-Taiwanese JVs, because we wish to tease out the Taiwanese parent firms' opinion to get the sense of Taiwanese business development

under JV formation in the PRC. However, it is clear that successful Sino-Taiwanese JVs not only depend on Taiwanese firms' contributions, hence further understanding is needed about Chinese firms' behaviour and approaches in the form of cross-boarder collaboration. In addition, it was costly to carry out this interview research method. Thus we mainly dealt with Sino-Taiwanese JVs in major cities. Therefore, the above research limitations suggest that the research design and results should be treated carefully dealt with and interpreted with caution in order better to address the issue of cooperative formation.

7.5 Summary

This section has presented both qualitative and quantitative descriptive data and information, which allow us to examine the strategic motives behind JVs and networks from Taiwanese firms' perspectives. In addition, these data are sufficient to test the proposed hypotheses presented in the previous chapter regarding the Sino-Taiwanese JV context. Thus, several important points can be summarised as following:

First, qualitative data results suggest that each of the respondents are familiar with their overall joint venture process, because they both actively participated in JV activities to develop long-term operations in China and understood the firm's reasons for entering into joint ventures. In general, all the interviewees focused on the practical terms of JV operation procedure and managerial structure, which may directly affect JV performance.

1. The interviewees perceived that the deteriorating Taiwanese economic environment is an inevitable trend, since China is an economic superpower which triggered the economic hollowing-out impact on the Taiwanese market and affected business survival. Nevertheless, the political tension between Taiwan and China has imposed an even greater threat for Taiwanese firms compared to other countries. Needless to say, choosing a JV strategy not only provides a defensive strategy for Taiwanese firms against both political and economic risks, but also makes logical sense to help Taiwanese firms in enhancing their development and performance in the mainland.

2. Guanxi networks play a crucial role in JVs between Taiwan and China. They particularly facilitate the cooperative process to increase the effectiveness and efficiency of Sino-Taiwanese JVs, although partners have different objectives and goals. Summarised from the interview results, guanxi offer several important functions. First, they assist with the partner pre-selection technique of gathering enough information and data about potential venture partners. Second, to protect against suspicions of opportunistic behaviour, guanxi serves an anti-trust strategic function during JV operations. Thirdly, when Taiwanese firms negotiate with Chinese partners, guanxi seems to be useful in balancing bargaining power. The well established guanxi relationship between partners may result in desirable negotiation consequences and create a harmonious atmosphere. Fourthly, guanxi appears to be an effective mechanism for maintaining efficient management over JV activities, and it lowers the transaction costs and increases the speed with which available resources from venture partners can be utilised.
3. Achieving good profitability is the main concern for each of the interviewees rather than non-financial JV objectives. According to the results, Taiwanese parent firms seemed to focus on both short-term profitability and long-term market development in order to strengthen their competitive advantages in the Chinese market.

4. Institutional instability and Chinese political interference were the two additional major obstacles to Taiwanese firms, since they had to face significant threats from political confrontations between Taiwan and China. Such information was largely gathered through interviews instead of through the general survey in China. Taiwanese parents firms obviously have different degrees of relying on the guanxi relationships, which directly or indirectly influenced operations and working relationships.

Second, the quantitative results suggest that our empirical studies have revealed several significant relationships that offer strategic motives for JV and network options. Thus, it is expected that factors of both internal management or operations and external environment have direct or indirect effects on JV firms' performance. Unlike qualitative results, quantitative respondents answered the questionnaires cautiously, because of political tensions between Taiwan and China. Therefore, 'neutral' responses were to be expected.

1. According to empirical results, the Taiwanese respondents pointed out that economic environments in both Taiwan and China are the most important motivation for JV formation. JVs can take advantage of cultural similarity and geographical proximity to learn and engage the Chinese market quickly.

2. On the basis of the survey's empirical data, we may conclude that Taiwanese firms in JVs were more likely to obtain the dominant position to gain control over JV activities. In other words, the majority ownerships give Taiwanese firms the right to appoint their staff to the important managerial positions in order to gain operational and managerial autonomy. Along with guanxi strength, the Taiwanese appeared to use dominant positions of power against any opportunistic behaviour from Chinese parent firms.
3. Guanxi can be recognised by Taiwanese firms as the most effective tool for establishing a better JV structure. The positive relationship between partner selection and guanxi networks was consistent with previous findings by Luo (1997), Wang, Chow and Koh (1999), and Luo & Yan (2000) to shed light on the strategic motives of Taiwanese firms for JV. As a consequence, guanxi not only provides a significant safeguard for Taiwanese entrepreneurs in facing unavoidable disputes, but also offers effective resolutions for firms when dealing with internal or external legal disputes of JVs in China.
4. Political instability and institutional uncertainty were less emphasised in the quantitative research. It was to be expected that respondents would try to avoid trying or giving 'neutral' responses to Chinese political and institutional questions. Hence,

the data were not enough to indicate strongly that political pressure and institutional instability were the main motives to set up JVs.

Taken together, the qualitative and quantitative findings clearly reveal the different impacts of various factors on the decision to enter the Chinese market through JVs. The following chapter will discuss the research results and comment in detail on whether there is a relationship between this study and previous research on Sino-foreign JVs.

Chapter VIII Research Results Approach & Discussion

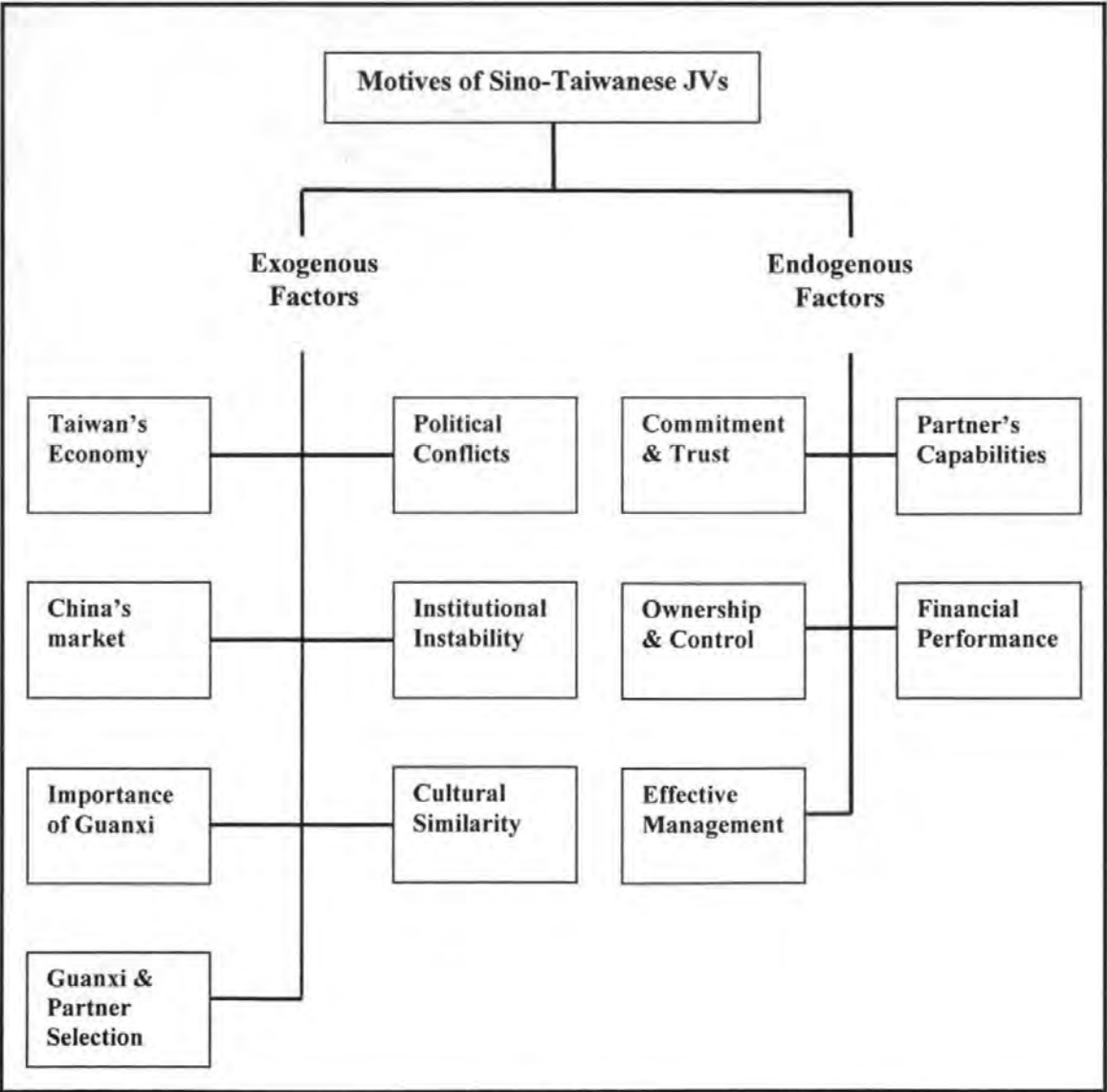
8.1 Introduction

Different motives for setting up Sino-Taiwanese JVs have been identified in the previous chapter that explain the need for the strategic use of guanxi networks in IJVs. Both statistical and qualitative evidence has shown that there are strong correlations between JV and guanxi network factors within Sino-Taiwanese JV companies. Meanwhile, the effect of cultural similarities and differences in JVs provides an additional argument under the international cooperation structural model. In this sense, it is important to address the motives of Taiwanese investors to understand their strategic reasons for establishing JVs and other networks in Chinese markets in order to ascertain whether these reasons are consistent with previous research findings on IJVs' regarding such firms' strategic behaviour (Glaister & Buckley, 1996) and the advantages of networking systems (Wong & Ellis, 2002) in order to shed light on the unique value of Sino-Taiwanese JVs, outline the research implications, and provide a new way of thinking about cooperative organisation.

In this section, the author attempt to interpret each distinctive characteristic of JV motivations in different circumstances. The analysis presents the JV motives of Taiwanese firms, which will be categorised in accordance with its exogenous and endogenous factor characteristics to find out the effect on Taiwanese investors' decision to form JVs and networks when facing potential challenges in the Chinese market (Figure 8.1). Exogenous factors are those external environmental issues that might become the Taiwanese investors' motives for setting up JVs in China, such as the deterioration of Taiwan's economic

situation, the attractiveness of Chinese markets, political confrontation between Taiwan and China, China’s institutional instability, the importance of cultural similarity, and the dynamic function of guanxi and partner selection. On the other hand, endogenous factors relate to organisational management and operational issues which might also turn out to be the main motives for forming a JV. These may include strategic ownership structure, the significance of trust and commitments, financial performance and the effectiveness of management.

Figure 8.1: Exogenous and Endogenous factors for Sino-Taiwanese JVs



8.2 Exogenous Factors

A number of JV studies have established that external environmental factors have represented 'push' motives for international JVs (Cleeve, 1994; Buckely & Glaister, 1996; Luo & Yan, 2001). These analyses of JV motivation describe the comprehensive structure of decision-making for JV, and the research results showed that exogenous aspects can be seen as the most critical success factors having a substantial effect on Taiwanese investors' motives in the entire economic, political, cultural and institutional system. The identification of exogenous factors enables us to explain the influence of uncontrollable issues on the strategic motives of Taiwanese investors in forming JVs and networking process in a high-uncertainty environment. Those exogenous factors include Taiwan's deteriorating economic condition.

8.2.1 Taiwan's Deteriorating Economic Condition

For Taiwanese firms, the main motive for using a JV formation is the deteriorating Taiwanese economic environment, which encourages them to go abroad to seek out business opportunities. According to frequency and factor analysis, the first ranking motive is the deterioration of the Taiwanese economic environment (see Table 8.1). As Luo (1997) suggests, JVs are associated with the domestic economic environment, which encourages firms to find a suitable partner to achieve successful cooperative operations. The statistical evidence on economic perspectives clearly indicates that Taiwanese firms are largely driven by market motives to enter Chinese markets by adopting a complementary strategy,

such as the JV. Subsequent interviews with Taiwanese managers in Sino-Taiwanese JVs reinforced these quantitative results.

Table 8.1: Main Motives for Taiwanese firms seeking JVs and a Networks Strategy

Motives for JV	Number of Factors	Rank Order	Factor Loadings
Deterioration of Taiwanese Economy	Factor 1, 10, 12 and 17	1	0.8434
Cultural Similarities	Factor 3	2	0.8160
Partner's Capabilities	Factor 4, 11, 15 and 16	3	0.7988
Institutional Instability	Factor 6 and 7	4	0.7799
JV Commitments	Factor 8, 10 and 14	5	0.7753
Attractiveness of Chinese Economic Factors	Factor 5, 15 and 17	6	0.7572
Political Environment	Factor 2, 9, 12 and 13	7	0.7486

According to this finding, it suggested that Taiwanese firms would be well advised to move to China in order to increase their competitive edge and meet the requests from their suppliers and customers in international markets, since China is the most desirable place for Taiwanese businesses relocation. In practice terms, strategic JVs not only give an advantage to Taiwanese firms when they are accessing crucial resources in order to sustain their business operations with low transaction costs, but also allow them to take advantage of both home and host markets to achieve a higher degree of business success. Based on my interview evidence (see Table 7), the economic environment is perceived as the main motive to drive firms to invest in foreign countries despite the investment costs. JVs might therefore provide a gentle approach to employ local markets' competitive advantages as well as establish a position in an unfamiliar market. Deteriorating domestic environment factors echo other research findings on how the limited resources of local markets have

forced firms to relocate their businesses to external desirable environments because of the available resources and the desirable conditions in the partner's country, such as abundant cheap labour, lands, preferential treatment, and attractive market size (Yan & Luo, 2001). Consistent with previous JV motivation studies by Buckley & Glaister (1996), Cleeve (1997) and Roehrig (1994), the deterioration of economic conditions (push) in the home market is shown to be a frequent influential factor behind IJV formation rather than other non-economic factors. If the deterioration of Taiwan's economic environment is continued, the need for overseas JVs is likely to increase. As a result, the 'push' economic factor was confirmed by both survey and interview as the most influential issue for Taiwanese firms adopting the JV strategy to access Chinese markets.

8.2.2 Cultural Similarity

Cultural factors are an inevitable influence in Sino-Taiwanese JVs, particularly, the effect that partners' cultural background may have on their adaptability. The findings of this study ranked similarity of culture as the second most important factor for Taiwanese investors choosing a JV strategy in China (Table 8.1). It offers a contribution to our understanding of the role of cultural similarity in the Sino-foreign JV, because it may encourage foreign firms to adopt the multiparty JV strategy if prospective partners have a different cultural background. Firms may have to face significant problems in a China-based JV, because of differences in terms of their backgrounds, attitudes, perceptions, and behaviour. According to my interview findings, there are a number of significant benefits

if firms have similar cultural backgrounds to Chinese partners, benefits such as resource accessibility, local market knowledge and information, and market expansion opportunities (as explained in Chapter 3). The finding is supported by factor analysis, which demonstrates that cultural similarity was advantage in Sino-Taiwanese JVs.

The result of the study suggests that the cultural characteristics that Taiwanese share with their Chinese partners in terms of the approach to risk, inter-organisational communication system and relationship concept contribute to a relationship based on mutual trust and increases the efficiency and effectiveness of JVs. Sharing a similar culture and speaking a common language facilitated the Sino-Taiwanese JV development during the duration of JV cooperation. An effective inter-organisational communication system had led to better Sino-Taiwanese JV performance; therefore, Taiwanese firms could be more alert about the anticipated situation and able to deal with JV challenges with their Chinese partners. This similar culture variable was considered one of the important mechanisms to encourage Taiwanese firms to opt for the JV in order to access potential market opportunities in China. This lack of constraint by culture-related features enabled firms to enjoy a high degree of flexibility in the host country and allowed Taiwanese firms to access crucial resources and potential markets quickly. More importantly, JV formation with compatible local partners simultaneously increased the possibility of business success and offset the potential risks.

Indeed, through the advantage of cultural similarity, Taiwanese investors have a better competitive position and bargaining power when dealing with potential Chinese JV partners. By dealing with those knowledgeable about guanxi relationships, favour exchanging, face-giving behaviour, and gift-giving etiquette, they are able to enhance their social capital in support of JV development in the Chinese cultural environment. This finding has confirmed Luo's (2000) assumption that investors who have a similar cultural context to the Chinese understand the Chinese way of doing business better than those have completely different cultural backgrounds.

In addition, cultural similarity in a JV has been explored by Oudenhoven & Zee (2002), who found that a similar culture was the most valuable resource affecting firms' international cooperation performance in relation to previous cooperation experience. Similarly, the findings of this study clearly indicated that cultural similarity appears to be beneficial for Taiwanese firms in gaining the ability to control and accessing the resources and knowledge of local partners. Moreover, cultural similarity was associated with fewer JV conflicts during the partnership. For instance, Taiwanese venture partners who shared similar culture with their Chinese partners would frequently be involved with the renegotiation process in order to obtain more bargaining power and increase their control in a highly uncertain environment. This result also supports the previous research studies done by Ghauri & Fang (2001) and Li et al. (2001). They stress that the importance of a

guanxi relationship was interrelated with the Chinese negotiation process to achieve optimum outcomes.

The findings of this study further identified that the multi-party alliance affected the JVs' management performance in China. There were two cases of multi-partnership JV that were identified in the qualitative analysis and these explained the advantage of cultural similarity in the formation of Sino-Taiwanese-Foreign JVs¹, an advantage which was utilised for achieving the large scale of business projects and for building up strong competence for JV organisations. Taiwanese JV companies not only could have better communication with Chinese partners to facilitate a reciprocal relationship in a JV, but Chinese partners would be more likely to provide favours by helping Taiwanese partners to overcome different obstacles in the long-term relationship. Therefore, through the strength of multi-party alliance formation, Taiwanese investors can concentrate more on market development and opportunities exploitation without worrying too much about political risks. Meanwhile, venture partners will have a great chance to achieve business success in China through the strength of Taiwanese partners.

Consequently, this research results suggested that similar culture is one of the important factors persuading Taiwanese firms to adopt a JV entry mode, and it explains why Sino-Overseas Chinese JVs are more likely to emphasise the importance of cultural similarity

¹ Taiwanese firms in multi-party joint venture do not only play a role as cultural conduit, but they also help Chinese and third foreign partners to enhance their integration process by introducing new resources to both parties to increase their JV's competitive position in the market.

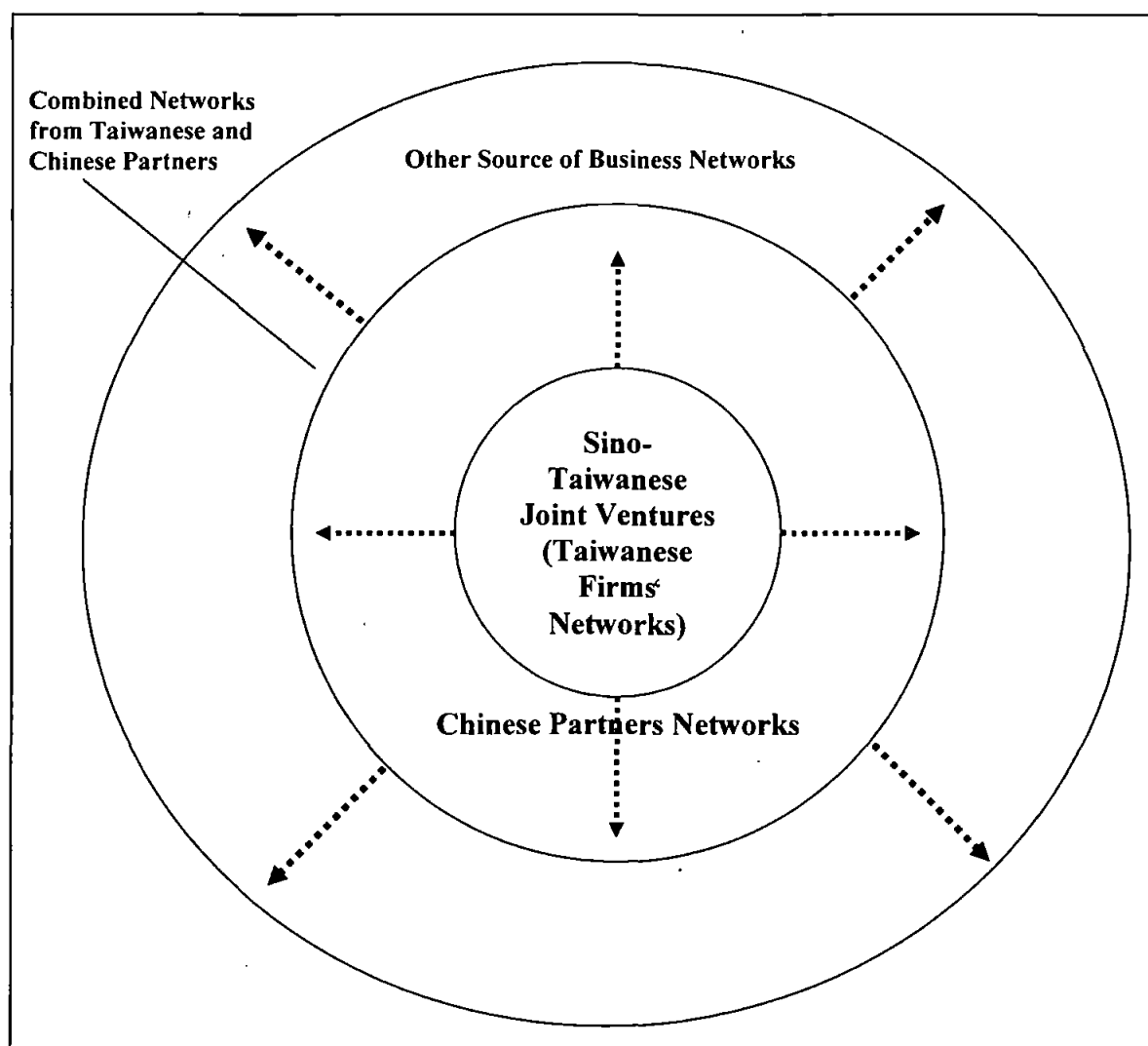
and relationship than business transactions and operations. In other words, the level of cultural distance only influences foreign firms' choice of investment location and suitable partners in China, but also enables firms to draw crucial resources together to enhance collaboration performance.

8.2.2.1 Importance of Guanxi

Given that accessing the Chinese market depends on the cultural influence on relationship cultivation strategies (Hung, 2003), the author's findings suggest that Taiwanese investors are more likely to employ guanxi relationships to support their JV activities and development in response to Chinese institutional instability, information unreliability and political bureaucracy. This simply points to guanxi relationships as one of the most important factors that motivate Taiwanese investors to adopt a JV strategy, which is consistent with other studies of guanxi networks in international JVs in China. The author's interview evidence found that guanxi offered dynamic functions to Taiwanese firms and also that these functions provided a significant influence on the process of Sino-Taiwanese JV development. It must be noted that the available research into the strategic motives behind international JVs on the basis of guanxi networks is still limited. None the less, the findings of this study have confirmed several critical facts in consideration of the usage of guanxi relationship between venture partners. Figure 8.2 presents findings that summarises the movement of Taiwanese firms towards Chinese markets, and it clearly indicates that they have a high tendency to rely on interpersonal relationships to settle

problems instead of taking legal action.² This finding is consistent with Hamilton's (1996) research on the importance of business links in Chinese communities. He concludes that interpersonal relationships in institutional contexts influenced firms' development and performance. This view supports the Taiwanese firms' motive for using guanxi relationships to achieve strategic objectives by quickly establishing trustworthy relationships.

Figure 8.2: The Importance of Guanxi for Sino-Taiwanese JV's Business Networks



² Owing to the vagueness of Taiwan's laws in the last decade, Taiwanese businessmen have relied on their trusted personal networks to deal most of business aspects (Kao, 1989).

In this study, the important issue of Chinese government interference was found to be a consideration for the formation of JVs. It increased the intention of Taiwanese firms to engage partners' guanxi network systems in order to overcome unannounced visits by government officials and government intervention in JV activities, for instance:

1. The importance of guanxi is usually attributed to China's weak institutional environment, as it facilitates the maintenance of good reputations and good relationships with other business partners. Taiwanese investors are more likely to use special guanxi networks to seek resolutions or protection so as to be able to continuously carry out business operations without disruption.
2. Good guanxi interaction between government and foreign venture firms is needed, since this not only helps foreign firms to escape interference from notorious Chinese bureaucratic structures and government, but also provides the function of stability for JV firms, since JV organisations are focused on achieving their objectives. This supports Luo's (1998) study, which concluded that guanxi networks are often more important than a firm's strategy in the Chinese market, especially in foreign firms, which are highly likely to have a high possibility of encountering the Chinese bureaucratic system.

3. Guanxi provides support and protection for Sino-Taiwanese JVs' daily operations in China, because it shows the way to 'circumvent the unreasonable rules and conditions' in order to avoid Chinese political corruption and bureaucratic system.

However, with regard to the importance of guanxi networks, the results of the study also suggest that guanxi is expected by Taiwanese firms to have pitfalls, since interpersonal relationships could not ensure the success of a business. First, like Wellman's (2001) study, guanxi might serve as a web and lubricant to facilitate the business process while dealing with sophisticated Chinese partners. However, it should be noted that guanxi acts as a business transaction facilitator between Taiwanese and Chinese firms, and would never guarantee business success on its own (Kao, 1989; Luo, 1998). The JV project required effective operational skills and efficient managerial control so as to meet the fast changing business environment. Another pitfall of guanxi usage for Taiwanese venture firms is that they might have to bear more liabilities and obligations to maintain important and costly relationships, since they have already invested substantial capital, time and effort to shift their businesses operations to China.³

The core guanxi value relies on constantly emphasising reciprocal relationships by providing a variety of assistance in different circumstances from different people. Therefore, to maintain effective network systems, firms might have to spend substantial

³ Unreasonable demands usually happen in the Chinese business environment, typically, in Sino-foreign JV structures, where foreign firms might have to satisfy local Chinese partners' requests to maintain a good working relationship in order to increase JV effectiveness.

time, money and effort. As noted earlier (in Chapter 4), *guanxi* heavily involves human feelings and sentiments throughout relationship practices, thus 'favour' liabilities become a heavy burden for firms while working with Chinese JV partners in China. Nevertheless, the survey showed that *guanxi* is the most important component of Chinese culture and also that no one can survive in Chinese society without *guanxi* relationships. Since Taiwanese venture firms have a vulnerable position in China, they must adopt *guanxi* as their strategic tool, because they possess certain competitive advantages over other foreign investors thanks to affinities of history, culture and language.

As a consequence, *guanxi* presents an important resource for Taiwanese firms to create a suitable and desirable working condition for both venture partners. Therefore, a 'win-win' situation could be expected, according to the past studies, which have shown that if firms were lacking *guanxi* relationships, it would be very difficult to work with Chinese partners as a team and perform poorly since there was no interaction between venture parties. Also, the findings suggest that human relationships were a significant factor in maintaining JV operational efficiency. The complex *guanxi* concept still causes confusion for foreign firms, and Taiwanese investors should continue to attempt to be deeply involved with their Chinese partners through *guanxi* relationships to reach consensus in forming an effective JV organisation quickly with the minimum friction. Even though China's economic environment has shown significant change, the need for a *guanxi* network strategy is probably still advisable for Taiwanese firms to enable them to avoid difficulties.

8.2.2.2 Importance of Guanxi in Partner Selection

There is no previous study report showing that guanxi can be seen as a partner selection mechanism for Taiwanese firms. However, it has been established that guanxi has had a significant influence on the partner selection process for Taiwanese firms in this study, which suggests that guanxi services the most useful function for Taiwanese firms when they are selecting a suitable JV partner. Since guanxi imitates existing relationships, firms might use their extensive guanxi networks as a partner screening strategy to support their partner selection process with fewer costs and less investment of time. On the basis of this finding, it appears to be the case that pre-existing relationships are significant prior to forming a JV, since business operations in China are largely dependent on interpersonal ties. The survey literatures showed that the closeness of guanxi was used by Taiwanese companies to test potential Chinese venture partners during the negotiating stage because through intimate communication relationship they were able to gather or exchange significant information and were able to evaluate the reliability of their potential venture partners. It has been established that the potential partners found through guanxi are likely to provide a pre-emptive barrier to prevent opportunistic behaviour from potential competitors (Tsang, 1998). The results of this study also show that guanxi helps firms to engage with other potential venture partners for future projects of strategic development and collaboration.

Consistent with previous research on the importance of business relationships, the survey of this study established that the guanxi was a factor to determine the potential JV partners in the selection process in which partners might find each other with more suitable interests and objectives. Luo & Yan (2000) confirm that guanxi plays a critical role as a partner criteria information provider in terms of firms' size, nature of business, objectives, capabilities and other related issues. There is evidence to show that the guanxi plays a determining role in Taiwanese firms' competence, because it allowed Taiwanese firms to overcome the uncertainty of Chinese market situations and circumstances to choose their desirable partners and to grasp the first mover advantage across different industries in China.

These results provide useful insight into the importance of the guanxi function in the process of partner selection, because effective cooperation depends on the high degree of personal trust which is embedded within the guanxi network context. Therefore, the need for guanxi in an interactive partner selection process within China can be again to be established.

8.2.3 Institutional Instability

The findings clearly show that weak and complex institutions and rules are ranked as the fourth significant motive for Taiwanese firms to choose a JV strategy in China (Table 8.1). Because China has an unpredictable and volatile institutional system, it has produced both exogenous and endogenous effects on Taiwanese companies' JV development since these foreign investment laws and regulations were varied in China. The results from interviews and the survey suggest that the sources of institutional instability are various, for instance, the bureaucratic structure of government systems, the interpretation of local laws and regulations differently or reluctance to follow the regulations in the host country government.

The exogenous perspective of institutional instability suggests that the Chinese government has a high tendency to change its policies and institutions frequently, which might create confusion for Sino-Taiwanese JVs' practices and increase the risk of venture partners' opportunistic behaviour. From the endogenous perspective, unstable institutions might create a significant negative impact on the relationship between Chinese and Taiwanese venture partners and on the development of JV managerial and operational performance. It is clear in this result that the decision to opt for a JV can be explained by the institutional instability factor, which influences Taiwanese investor' choice of entry mode (see Figure 8.3). Hence, Taiwanese firms may be more likely to gain more control through inter-firm cooperation because of institutional instability factor.

Along with the continuous economic reform, the Chinese government will keep improving its economic trading environment, the laws and regulations in favour of foreign investors have been set.⁴ However, Taiwanese investors actually benefited less from special economic incentives owing to their controversial political identities⁵. From the interviews, it is apparent that the IJV strategy may be an ideal solution to overcome institutional problems and provide a useful communication channel with government authorities that reduces the effect of unexpected interference from government officials. This is consistent with previous studies that suggest JVs can help parent firms overcome institutional obstacles in unpredictable environments. Yan & Zeng (1999) claim that firms' instability was attributed to change in government policies and institutions, which adversely affect business operations and performance. Through forming a strategic JV, parent firms may have a chance to compensate their weaknesses. In other words, the negative influence of weak institution systems can be minimised in this way.

In fact, firms conducting business in China have to face a high degree of institutional instability since local Chinese business partners have different ways of interpreting 'laws, contracts, and general responsibilities, disagreements' (Roehrig, 1994, p. 93). In this sense, foreign firms in China will be more prepared to face the unexpected problems related to

⁴ While there are more than 150 major laws and regulations applying to foreign investment, the legal and regulatory system reveals a general lack of transparency. Foreign investors may feel frustrated when facing Chinese institutional instability, which could substantial damage their cooperative organisations' operations.

⁵ In 1994, National People's Congress and State Council approved The Law of Protection of Investment from Taiwan, which speeds up approval, provide better support service and more tax and import concessions (Luo, 2000, p. 59). Only some Taiwanese enjoyed those preferential laws and policies, because Chinese governments or authorities did not effectively execute or promote them nationwide, which resulted in different economic treatments in accordance with different economic regions.

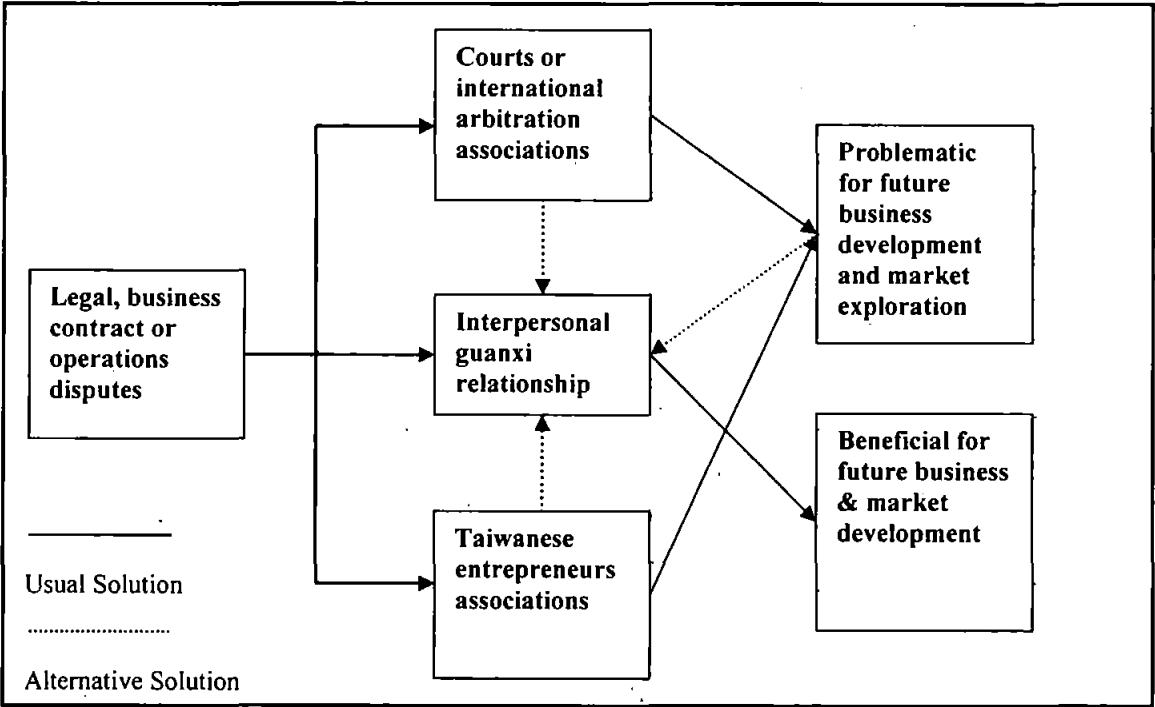
laws, policies, regulations and rules. According to this study, the interview respondents indicated that the case for a cooperative formation is overwhelming, because working together with Chinese partners provides firms with knowledge of local institutional practice as well as a high degree of negotiating power when involved in a legal dispute. Evidence from the qualitative and quantitative research methods used in this study suggests that JVs not only allow firms to explain potential Chinese market opportunities, but also reduce unpredictable institutional disputes and the interference of a weak Chinese judicial system, especially in relation to the cross-straits political issue.⁶ This is the first time that research has established causal link examined between guanxi networks and the creation of JVs from the perspective of Taiwanese firms' in the Chinese economic environment.

The findings of this study point to the absence of coherent business laws in China that encourage firms to seek an alternative solution actively for the cooperative strategy in order to help them to deal with daily business operations and management. As mentioned earlier, guanxi relationships provide the means for Taiwanese firms to bridge the gap between Chinese firms' operations and a Chinese weak legal system. China's cultural environment is governed by human relations, and laws need guanxi to achieve its effectiveness. Cooperating with Chinese venture partners can improve access to useful guanxi relationships, which would help Taiwanese firms reduce many of the disputes in a weak legal system.

⁶ Federal Industries surveys in 2000, 2001, 2002, 2003, 2004 and 2005 had asked which approach Taiwanese entrepreneurs in China used to settle legal disputes, and using 'guanxi' was ranked the number one problem solving-option for them.

At this point, the study builds upon the findings of Pearce & Xin (1996), who stress the benefits of guanxi in JV formation and suggest that firms should use guanxi relationships to maintain control over JV activities, for guanxi not only serves as a defence mechanism against potential threats, but also improves partner firms' influence within the JV organisation. This point of view certainly offers an explanation for Taiwanese firms' decision to seek a cooperative relationship with Chinese partners. Not only do they realise that the weakness of formal Chinese institutions can be counterbalanced by guanxi relationships, but also firms' performance in an IJV is enhanced by closely exchanging partners' resources, knowledge and valuable information in the Chinese market context.

Figure 8.3: Possible Ways for Taiwanese Investors to Resolve Legal Disputes



The alternative explanation of a weak institution system can be attributed to distrust in business partners in China. The research findings suggest that the Taiwanese feel vulnerable when they are conducting business activities in China. There are two main reasons for this. First, unreasonable demands from Chinese business partners for renegotiating payments in business contractual agreements is difficult for Taiwanese partners to access. Second, the cost of the untruthful cooperative relationships could destroy Taiwanese JVs operations in China, because: 1) they have already invested significant time and capital in the JV projects as they determined to establish their base in China; 2) if Chinese partners have a terrible relationship with the government authorities'; Taiwanese operations would be terminated or productions ceased; 3) constantly changing Chinese policies and laws might weaken the Taiwanese firms' competitive advantage in local markets because of the lack of first-hand information.

Given the disruptive capacity of the weak Chinese institutional environment, the study suggests that firms from Taiwan should undertake the strategic JV formation to enjoy more effective business development without the distractions of institutional stability and government authorities' interferences in order to achieve better performance.

8.2.4 Attractiveness of Chinese Economic Factors

Chinese optimal economic conditions and incentives are considered to be the sixth most important reason to motivate Taiwanese firms to invest in Chinese markets via a JV formation (Table 8.1). China certainly meets the requirements for foreign firms in terms of labour, knowledge, markets, skills and land. Taiwanese firms recognise that contemporary China can offer them crucial resources, knowledge and infrastructure, which have become key factors that influence their business operations and performance. At the same time, the Chinese government is endeavouring to enact significant laws and policies in order to attract further foreign investments and crucial technologies and skills to China, for instance, offering additional special tax breaks and other economic incentives. Concomitantly, owing to the deterioration of the Taiwanese economic environment, the potential Chinese market is becoming an irresistible factor for Taiwanese firms, because not only do they possess geographical proximity and the advantage of cultural similarity, but they are also able to achieve their strategic goals through their partners' capabilities. Therefore, more and more Taiwanese enterprises are deciding to move to China in order to maximum the comparative economic benefits (as was explained in Chapter 1). According to the interview results, there is no doubt that Taiwanese firms are attracted by China's desirable economic conditions, which can be seen as the main motive behind the choice of the JV and guanxi network strategy (see Appendix C, Table 7.1). Furthermore, those firms that were interviewed in specific industrial sectors, such as telecommunication and services, pointed out that a JV would serve as an easy access function to allow them to engage with

local market activities in a short period of time. There is no doubt that the attractiveness of the Chinese economic environment is one of the motives for forming a Sino-Taiwanese JV.

In 2000, Taiwan was ranked as the fourth largest FDI in China (Sanyal & Guvenli, 2000). In order to access different business areas, Taiwanese investors might not have strategic entry options other than the JV to participate officially in state-owned projects (Roehrig, 1994). Active participation in international trade committee and activities, such as the ASEAN plus three summit⁷, and the Closer Economic Partnerships Arrangement (CEPA)⁸, promote and offer better trading conditions to regional cooperative nations. However, Taiwan has been isolated most of the time under the 'One China' doctrine. So far there has been no practical way to overcome the deferential international economic treatment of Taiwan. The interviews demonstrate that Taiwanese firms have tried every possible means of accessing Chinese markets by establishing businesses in Mainland China, even though they face possible punishment from the Taiwanese government. Meanwhile, Taiwanese firms must engage in Chinese markets and tend to use different approaches to collect information about local economic practices and regulations by comparing the difference in economic incentives between Taiwanese and other international investors to obtain a better competitive position in China.

⁷ Association of Southeast Asian Nations (ASEAN) is a political, economic, and cultural organisation of countries located in Southeast Asia that promotes free trade to increase each member country's competitive advantages. China, Japan and South Korea have also joined the formal ASEAN community for better regional integration.

⁸ Closer Economic Partnership Agreement (CEPA) is a free trade agreement between Hong Kong and China which offers a better deal than China WTO commitments and provides faster access to Chinese markets.

To attract further foreign investment, advanced technology know-how, and management skills, the Chinese government must introduce suitable economic incentives for foreign firms to obtain those important resources. For instance, Chinese government provided Taiwanese firms with equal protection for their rights and benefits in order to create a favourable investment environment. Hence, it was expected that the attractiveness of Chinese markets was one of the important motives for Taiwanese firms to form JVs in order to access Chinese industries. This motive suggests that the attractiveness of the Chinese economic situation was one of the core motives for Taiwanese firms seeking a JV strategy in China.

8.2.5 Political Tension between Taiwan and China

The unexpected changes in Sino-Taiwanese relations caused by cross-strait political situation were found to be a significant motive for forming Sino-Taiwanese JVs. Political factors were ranked as the least influential motive for creating Sino-Taiwanese JVs (Table 8.1). However, overcoming such a powerful external factor gave a powerful impetus to decision making to opt for a cooperative formation. To be sure, political tension was a unique risk factor for Taiwanese investors, and it represents a long-term influence on their business in China. Such a phenomenon was hardly found in other foreign investment studies in China. The results of the study suggest that the high profile of Chinese authorities in cross-strait policies can place great pressures on any Taiwanese economic activities in China, which has always been a worrying issue for Taiwanese investors.

Cross-strait political tension is an inevitable phenomenon that might not only influence cross-strait economic relationships, since Taiwan is drifting towards interdependence (Sheng, 2002). It encourages Taiwanese firms to cooperate with Chinese partners to reduce the impact of political confrontation. More important, previous JV studies do not identify the political factor as a motive for JV. But, the findings of this study consider that a political crisis between both sides would represent a strong motive for Taiwanese investors to enter Chinese markets via a JV in order to reduce the political effect on the resources exploration and market expansion process. In addition to the political pressure from China, Taiwanese firms also face risks caused by their own government's policies, because not only have they not received any practical support or protection from the Taiwanese government,⁹ but also the latter's inclination towards independence has seriously increased the political risks to Taiwanese businesses based in China. Instead of spending significant resources to overcome an unexpected political risk, they could look to the JV for a safety net.

It has been established that a common business interest with Chinese partners would ensure continuous operations and extensive interactions within the organisations based on the cooperative formation in a long-term commitment (Reuer & Tong, 2005). Furthermore, the Chinese government needs direct support from Taiwanese firms in the form of

⁹ In 2005, the Taiwanese government announced the 'active open-up, and effective management' policy towards Taiwanese investments in China, but they still prefer Taiwanese investors to consider other foreign markets instead of the Mainland. From the Chinese government perspective, although it introduced several laws and regulations for protecting Taiwanese investors, in reality those Taiwanese investors are tackling cumbersome Chinese bureaucratic problems and are involved in legal disputes in China.

donations or sourcing their supplies domestically in order to sustain state, provincial and local economic reforms. In addition, unanticipated interference from different levels of government authorities has a negative impact on firms' performance. The cooperation with Chinese partners might moderate the problematic interference from government and the uncertainty that this causes. Thus, firms could spend more time focusing on increasing their competitive edge to maintain high standards in their operations. Consistent with Gungwu & Wong's (1998) argument, the author found that Taiwanese political and economic issues can be seen as a double-edge sword which will have important consequences for the Chinese economic reform and development programme. To a large extent, the existing economic uncertainty, combined with political and military confrontations, provide a strong base for Taiwanese firms to establish the complementarity of partner relationships so as to lower the potential risks in their businesses.

In fact, the Chinese government is more likely to support the establishment of JVs with Taiwanese firms, not only because these would be able to absorb Taiwanese investors' competitive strengths, such as capital investment, technological know-how and advanced management skills, but also because the companies could monitor and gain control over the JV activities in order to extract maximum benefit from the cooperation with Taiwanese partners.

8.3 Endogenous Factors

In contrast to exogenous factors, Sino-Taiwanese JVs are largely influenced by internal management issues that directly or indirectly relate to the performance of firms. The endogenous issue for JVs includes the factors of trust and commitment, the capabilities of the partner, strategic ownership structure and operational control ability. In addition, the level of satisfaction with Sino-Taiwanese JV performance will reveal that the strategic motives of Taiwanese investors are the main reason to facilitate the formation of a JV.

8.3.1 Joint Venture Partners' Capabilities

- Most Taiwanese firms utilise partners' capabilities to access Chinese markets through the three types of profit-related objectives, such as market-related, production-related, and special economic incentive-related aspects (Roehrig, 1994), which have provided a fundamentally important reason to work with local partners on a specific project. In particular, the Chinese market is constrained by limited information. A consequence, Taiwanese firms wisely used their partners' resources, which enables them to achieve their objectives and goals under the international JV and alliance framework.

The reason given for cooperation with Chinese partners in China from the market-related perspective suggests that working with desirable local partners enables firms to access the potential of Chinese markets in different business areas. Both survey and interview evidence show that for the most of Sino-Taiwanese JVs, the capabilities of partner firms

were classified as endogenous, because they motivated Taiwanese firms to establish cross-border cooperation.

Chinese venture partners' capabilities enabled Taiwanese companies to gain access to Chinese markets, which usually involves dealing with complex laws and procedures for foreign investors. More specifically, based on the findings which suggest that Taiwanese firms could use a JV strategy to cover up its sensitive political identity by collaborating with Chinese partners; meanwhile, they could link themselves with local Chinese resources suppliers and distributors in order to take advantages from production-related, economic incentive-related and profit-related benefit in the new Chinese markets.

For instance, on the production-related level, while Taiwanese firms have gained a certain level of successful experience in their home market, in order to sustain their own competitive advantages, they need to connect with local partners to obtain cheap resources and potential market opportunities within a short period of time. Thus, speed of entry into the market is the most important consideration for Taiwanese firms throughout the assistance of local partners in engaging with obtaining local markets, local political support, finding abundant cheap labour and obtaining crucial local economic knowledge. This leads to the further suggestion that JV characteristics have increased firms' productivity and performance with superior production competence (see Interview Table 7.1 and Correlation Table 7.15 in Appendix C and E).

On the other hand, on economic incentive-related level, the findings of this study suggest that the Chinese government has a high tendency to provide special economic incentives to form a JV with foreign investors to attract further capital investment, technical knowledge and advanced managerial skills to facilitate or sustain economic reform. However, the success for an IJV is reliant on both venture partners' competitive advantages and competencies, which offer an opportunity for their IJV organisations to compete with their potential rivals in the same market. The study also identifies the usefulness of a common cultural background and speaking the same language, where Taiwanese firms might enjoy more convenient rules and treatment, which enhances their competitive strengths.

Apart from profit-related objectives related to partners' capabilities, the author also found that the usefulness of guanxi networks in the Chinese market can be considered an important motive for firms' decision-making to form a JV. Chinese partners' extensive guanxi networks would permit a way to facilitate government approvals, prevent local authorities' interference and explore the market opportunities for increasing JVs' success.

The research findings highlight that many Taiwanese firms have heavily invested in both labour- and technology-intensive areas to grasp different market opportunities. This determines JV preference, because by utilising their venture partners' existing resources they may alleviate the competitive pressures from rivals, such as in production, innovation and branding. The author's findings add to the understanding of how Taiwanese firms in

China specifically need the preference of partnership with Chinese local partners. In other words, the stresses on partners' capabilities are not only determined by Taiwanese investors' entry strategy to China, but also by accessing the partners' capabilities, which may lead Taiwanese firms to achieve higher success and enhance their competitive position.

Although Taiwanese firms in China faced both economic and political challenges, the findings show that seeking a compatible partner is important for them to increase their market competitiveness. Indeed, whether Taiwanese firms decided to pursue a long-term or short-term operation in China, the attributes of Chinese local partner firms provide the significant and necessary support to achieve their ultimate goals through JV strategic formation.

8.3.2 Trust and Commitment

Trust and commitment were ranked as the sixth factor in this study (Table 8), which suggests that partners' commitment was one of most important factors for successful cooperation and effective networking to determine the future of Sino-Taiwanese JV development. The findings indicated that firms with strong commitments to JV were more likely to accommodate each other. Moreover, such behaviour could be perceived as a key strength for firms to achieve a higher degree of JV performance by reaching their consensus in a reciprocal way. Evidence from interviews suggests that Taiwanese and

Chinese executives have to develop a high degree of consensus, confidence and trustworthiness prior to engaging in any JV activities, thereby relying on the other factor of direct communication and the special and necessary *guanxi*. It is clear that, since firms are unable to specify each detail in JV contractual agreements, the need for trustworthy relationships becomes apparent, because it might help to increase the effectiveness of the JV strategy. The results of interviews and survey suggest that commitment is regarded as the most important factor for both Taiwanese and Chinese firms, because it shows their determination to contribute their resources to the joint organisation in order to increase their market competencies and seize market opportunities. Also, this study shows there is a strong desire on the part of Taiwanese firms to increase their knowledge and competitive strength by actively participating in joint activities. This helps firms to perform better than they expected in terms of higher levels of operation efficiency and performance satisfaction.

Regarding the importance of commitment in a JV, this study identified that Taiwanese partners had already built up a certain degree of trust relationship with their local Chinese partners before engaging in JV, because: (1) it was obvious that strong trust relationships are able to benefit from the pre-existing *guanxi* relationship, because they must understand each other before they formed a JV; (2) trust might be gained from the ongoing process of business cooperation, hence, trust could be seen as a significant point in venture partners' connection in the trustworthy relationship. This finding confirms the conclusions reached

by Luo (2000) and Beckman et al. (2004) studies. They emphasise that personal relationships builds the strong trust relationship which can reinforce firm's commitments to existing business.

In sharp contrast, the author also found that untrustworthy behaviour existed within Sino-Taiwanese JVs, although partners shared similar culture traits. The result of this study provides a way to explain how IJVs' parent firms with similar cultural background might be linked to untrustworthy relationships. Although the firms shared common cultural traits, each firms had its own cultural background, which was deeply connected with their individual value, concept and attitude. The author's finding bears the conclusion of Lax & Sebenius's (1986) study. They stress that, while partners cannot completely trust each other, they cannot afford to be untrustworthy. Otherwise, it will harm their cooperative relationship. This suggests that the nature of differences in national and local cultures would increase the risks of untrustworthiness between venture partners. Furthermore, the profit-driven pressure for both cooperative and competitive relationships suggests than an authentic trustworthy relationship in a JV is not entirely reliable and sometimes questionable. The study results show that while Chinese firms might enjoy the advantages of technologies or skills contributed by Taiwanese firms, the competitive behaviour of partners has also hindered the performance of JVs. The finding suggests that, in order to avoid making dedicated commitments in a highly uncertain environment, firms might have to take a complementary approach to strengthen their competitive position within a JV

structure. Under these circumstances, trust and commitment need to be built up continuously in order to enhance the competitiveness of foreign firms while conducting business activities in China and adequately complete the tasks at each different stage of during the JV cooperation.

More importantly, despite the cultural similarity factor, Sino-Taiwanese JVs' organisational structure and development patterns were very different amongst the venture partners studies. This might have been the result of the venture partners' key of trust in each other. Evidence from Sino-Taiwanese JVs reveals that conflicts and disputes were inevitable during the collaboration owing largely to the different structural elements of the organisational systems such as the decision-making process or market development. Gradually, the untrustworthy relationship had been developed through different patterns of business behaviour and practice in JVs which have affected the partners' ability to deliver their resources to achieve committed objectives, even though they had shared similar cultural traits. In summary, if firms from Taiwan adopt a JV entry strategy, they are more likely to use the strategic trustworthy relationship for achieving their JV's long-term successes because of the nature of 'competitive collaboration' embedded in their cooperative relationship.

8.3.3 Strategic Ownership Structure and Control

An analysis of the findings suggested that both control and ownership were important ingredients in determining joint operational success. This research finds two valuable pieces of evidence relating to Taiwanese firms' strategic ownerships in Sino-Taiwanese JVs and their operational performance. First, it is clear that Taiwanese firms with a majority of equity shares enjoyed a dominate position that is positively associated with their operational efficiency and managerial effectiveness in JV organisations (see Interviewed Table 7.1 in Appendix B). In particular, there is a high level of competition and uncertainty in Chinese markets, thus majority ownership enables Taiwanese firms to overcome unforeseen events in the long-term operation through quick decision-making processes and market access capabilities. Second, the issue of control resulted not only from majority ownership. Some minority owners Taiwanese firms also acted as dominate firms in JVs through obtaining crucial resources and expertise such as technical skills to achieve specific objectives in Chinese markets. This finding confirms Killing's (1983) model, which suggested that firms with minority ownership could obtain overall JV control by exercising significant resources. This offered alternative options for strategic ownership of JV firms. More specifically, according to the model, firms could dominate a venture structure without having a dominant ownership position. In this study, few Taiwanese firms act as dominant firms by possessing crucial resources to obtain control in a JV setting. This may be because minority equity shares do not give them many 'rights' to negotiate and therefore they may be reluctant to participate in JV activities that yield

unsatisfactory JV partnerships. Contractual agreements that specify ownership types not only provided a safeguard for JV firms but also allow them to gain control of their core competencies¹⁰ (Tiessen & Linton, 2000). More importantly, contractual agreements for Taiwanese firms are a necessary means to ensure each venture partners' responsibilities and safeguard their legal rights, resources contributions, profits distributions, and the conditions of JV termination. This is also consistent with Yan's (2000) study of JV practice in China. He stresses that JV contractual agreements are not able completely to preclude unexpected conflicts and risks, but at least they provide the standard guideline for both partner firms to follow ward off possible threats and prevent opportunistic behaviour.

Furthermore, the findings indicate that, because firms from Taiwan often engage in trading or manufacturing activities in China (see Table 7.1 in Appendix B), the need for majority ownership in JV formation is apparent for the following reasons: 1) It allows them to bring about further cost reductions by controlling JV operations and management processes; 2) unanticipated political pressures on Sino-Taiwanese JVs explain the dominant behaviour of Taiwanese firms, and, in particular, such political risks might hinder firms' strategic plans for market expansion and for exploring opportunities.

¹⁰ In 1979, The Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures basically defined the legal entity of an equity joint venture in China and spelled out several conditions, such as approval and registration, jurisdiction and protection of Chinese law, and liabilities.

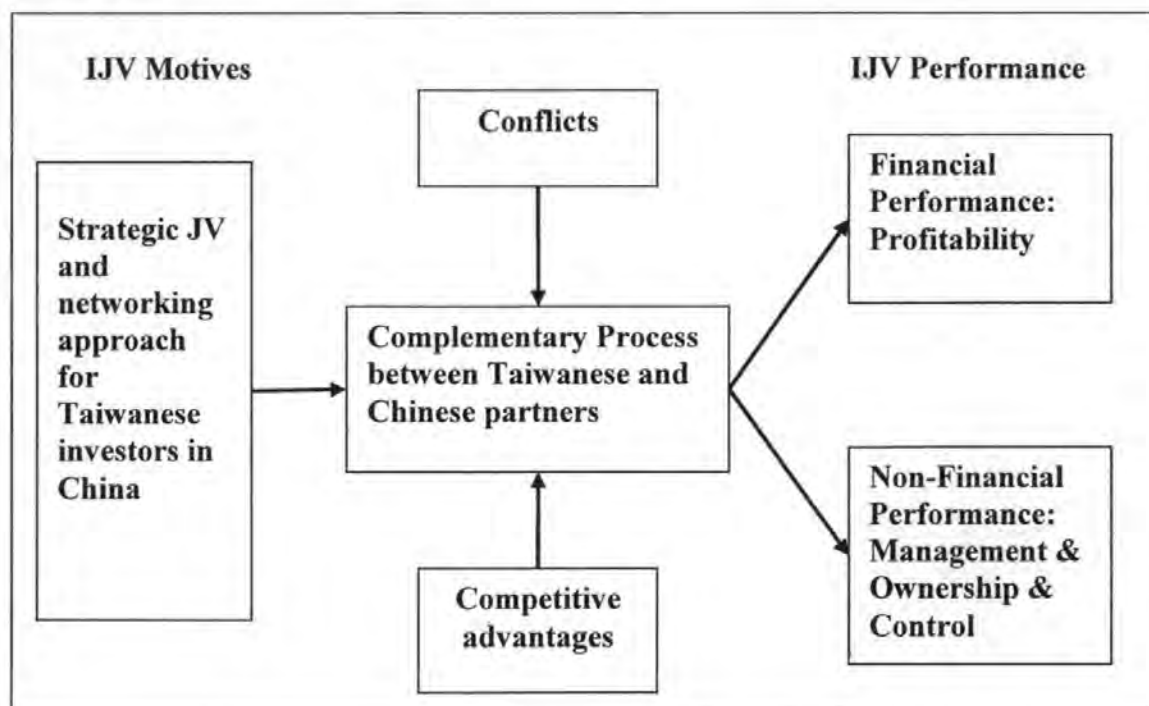
In general, whether Taiwanese firms decide actively or passively to approach their partners, it seems that the majority ownership structure provides a useful strategic position for achieving the greatest benefits from cooperative formation. This view supports the findings of Killing's (1983) study, because dominant venture firms are able to act as wholly owned subsidiaries. This phenomenon was largely found in Taiwanese firms' JV operational process in this particular study. Not only were they aware that control was the most important issue when working with Chinese partners, but also they realised that for future development they might have to acquire additional equities or establish WOS to gain greater benefits as firms operate in a foreign country. This point supported the conclusions reached by Calantone & Zhao (2001), who found that JVs in China could succeed even though firms were facing pressure from the Chinese government. In addition, strategic control was an essential element to firms for dealing with disagreements and disputes in pursuing of long-term collaborative objectives.

8.3.4 Joint Venture Performance

Often, the performance of cooperative organisations is determined by their joint parent firms' separate achievements in terms of individual profitability, quality of products and services, operations, and management performance. Given the limitations of the quantitative measurement of JV performance, the interview is likely to provide the more reliable view, which suggests that JVs' performance and achievements need to be adequately measured in financial and non-financial terms. In this study, factors relating to

debt, capital, management, and research and development aspects are positively correlated to JV performance. More specifically, the profitability figure is the important financial indicator for evaluating the performance of companies. On the other hand, the firms' objectives in the JV process are a significant performance indicator that measures JV's satisfactory level in the host market. Since Taiwanese firms can expect to encounter various problems and environmental uncertainties during collaboration in China, different measurements of JV outcomes and performance may be expected (Figure 8.4). In the following section, the measurement of JV performance will be reviewed to explain Sino-Taiwanese JVs' general performance results.

Figure 8.4: The Progress of Sino-Taiwanese JVs Performance



8.3.4.1 Tangible Financial Perspective

Contrary to other studies which argue that the measurement of financial aspects for JVs only addresses one performance dimension (Anderson, 1990), this survey study suggests that financial performance is still by far the most decisive factor in determining whether firms continue to carry out JV projects in the host market. Of course, the findings of this study have reflected that the financial figures are strong evidence that show the firms' performance, particularly the Taiwanese firms in China need to go through rigorous financial data calculations as part of the JV partnership. It should be noted that Taiwanese firms are driven by the motive of great profitability in China. Therefore, forming a JV is invariably a strategic plan to enable them to access China's desirable markets and sustain their growth and operations. In other words, Taiwanese firms seem to commit to their Chinese partners in the formation of JVs in order to achieve long-term profitability performance, which not only reflects their strong determination to succeed with strategic cooperation to the host market, but also indicates their experience of satisfactory financial performance in JVs.

Clearly, the importance of financial performance measurement is that it provides crucial information about the financial performance of JVs based on their profits, sales, and expenses, because those financial factors reveal fundamental operational and managerial problems and/or issues. On the basis of the findings, one may conclude that it is easier for Taiwanese partners operating in China to obtain financial assistance to resolve difficulties

have succeeded. Taiwanese firms in China have found it difficult to obtain bank loans and when they have succeeded, they have been asked to pay high interest rates or accept demanding monetary conditions. So, Taiwanese firms need partners most of the time to enable them to deal with complex financial systems while conducting operations and management activities in China.

As was suggested by Luo's (1998) study of foreign firms' financial performance, which explains that foreign firms will face a greater challenge of financial resources in China since the Chinese government has instated a tighter monetary policy to reduce the huge bad debts incurred by state-own banks. Therefore, for Taiwanese firms has been that profitability turns out to have a significant impact on the use of the JV. Because the wholly owned Taiwanese business do need to take a cautious approach while transferring crucial resources or investing capital into businesses based in China since such investing process was irreversible and imminent.

From a practical strategy perspective, this study's finding suggests that Taiwanese firms might need to be aware that fairly short-term budget control is a significant strategic management issue for them if they are to achieve their successful JV goals, although profitability in JV is generally referred to explicitly in their stated long-term objectives. For example, owing to the scale of projects, the venture partners probably had a certain degree of control over their venture expenditures. This might allow venture parties to meet their

strategic expectations easily; meanwhile, they could gain more financial opportunities to generate greater predictabilities. Khanna, Gulati and Nohria (1998) express a similar view when they describe the tendency of firms in a JV to serve their individual 'private' benefits instead of 'common' ones because of different interests and payoff expectations. Similarly, the research finding suggests that a large number of Taiwanese venture firms are pursuing their JVs' common goals by achieving their individual goals through obtaining crucial resources or accessing Chinese markets. Recognising the strategic JV purpose focus on the complementary relationships which enables firms to maintain their competitive position in each different stage of a JV's development and generate a positive impact on its performance.

8.3.4.2 Non-Tangible Financial Perspective

While firms are running JV businesses, they should also use non-financial factors to evaluate their performance and achievements, such as working relationships between partners and employees and their strategic management practice. In other words, objective measurement of the performance of JVs focuses on JV survival, duration of JVs, and their stability. According to findings in the interviews, it was found that a significant influence on performance of JVs will be highlighted on the factors of the effective management and achievement of JVs' objectives and goals reflects the traits of performance of Sino-Taiwanese JVs.

8.3.4.2.1 Effective Management

According to the research survey results of non-financial performance, which were raised by effective managements because it clearly shows that Taiwanese firms need to spend more time negotiating with their Chinese partners not only because of differences in management system in JV parent firms, but also because the managers' experience, capabilities and knowledge have a different degree of effect on JV performance. Therefore, these all emphasised in both interviews and survey that an effective management was considered a very important factor in increasing JV performance particularly if venture partners had completely different business backgrounds and styles. To incorporate with a firm's ownership strategy,¹¹ different management approaches have been used by Taiwanese firms to increase the effectiveness of management performance by pointing out the importance of the position of managers¹² and by creating a harmonious management relationship and environment. Without effective management systems, firms might have to spend extra costs to monitor the operations and development of JV organisations to strengthen cooperative behaviour and reduce uncertainties.

As mentioned earlier, since Taiwanese firms tend to obtain large equity shares in JVs with Chinese firms, they have a legitimate right to place their important staff in key managerial positions to help them to gain direct or indirect control over JVs. With such an approach

¹¹ As in the joint venture context, the legitimate right of dominant control was drawn from: 1) the equity shares; 2) resource contributions; 3) the board of directors of JV parent firms. Hence, Taiwanese firms have been able to bargain for the suitable management option and increase its operations efficiency and effectiveness in a Sino-Taiwanese JV formation.

¹² It has been confirmed by previous research that control of management positions is a critical issue in international joint venture negotiations (Li et al, 2002).

not only could they insert effective managerial skills into JV organisations, but they could also increase their bargaining power while collaborating with their Chinese partners. Although this aggressive approach might produce a negative impact on their partnership and create untrustworthiness between managers and staff, Taiwanese partners have been able to make significant decisions about troublesome behaviour. Clearly, the advantages of strategic management for Taiwanese firms can make them feel less vulnerable when doing business in China and increase their return on investment through joint management. This finding seems particularly valuable for foreign firms by highlighting the benefits of possessing dominant control in Sino-foreign JVs.

Additionally, managers' experience and knowledge are strongly associated with the management performance of JVs. According to the interview results, expatriate managers from Taiwan in co-management circumstances have greater competitive advantage than their Chinese partners because of successful Taiwan and foreign market experience, in which they not only have demonstrated a high level of commitment to achieve firms' objectives, but also shown that they were flexible enough to settle down quickly in China. This has enabled Taiwanese parent firms quickly to stabilise their position in the specific market. The author's findings confirm Yan's (2001) study on the strategic management advantage in JVs, because if firms contribute scarce resources to JV businesses, they usually intend to exercise a higher degree of management control and secure their bargaining power and dominant role in the JV formation. By examining Sino-Taiwanese

JVs, the author has found that firms which share a common cultural background with strong guanxi networks perform better in JV management. These findings therefore suggest that Sino-Taiwanese JVs might be likely to achieve higher levels of non-financial performance in China thanks to a common cultural background. One thing to bear in mind is that while much attention is given to Taiwanese firms' effective management systems, the trend has been for Taiwanese firms, because of intensive economic competition and political pressure, gradually to replace their managers with local Chinese managers in order to increase their competitive advantage and overall efficiency.

Two different research methods have revealed that the harmonious management relationship between Taiwanese and Chinese staff was a critical factor in maintaining effective and efficient management in JV organisations. According to the research findings, Taiwanese firms are more likely to employ their guanxi relationships in both external and internal aspects of JV organisations, because a harmonious atmosphere and environment increase the effectiveness of management systems and control, while good working relationships facilitate the speed of integration of JV management, in which context both parties are able to reduce internal competitive behaviour and stabilise the operation of the JV. This bears out Luo's (2000) findings on systematic management in Sino-foreign JVs, which indicate that good working guanxi relationships and management structure are able to enhance trust-building and reduce differences in managerial attitudes.

In fact, because of complex cooperative relationships within Sino-Taiwanese JVs, conflicts often arise between managers at different levels, which hinder a JV as performance while achieving each firm's individual objectives. As noted by Li et al (2001), Western foreign firms in Sino-foreign JVs prefer to hire expatriate managers from Taiwan and Hong Kong not because they can easily create the importance of *guanxi* ties within the JV organisation, but because they understand both Western and Chinese cultures and can effectively manage and operate in a large culture gap environment.

8.3.4.2.2 Objectives and Goals

The achievement of JV objectives and goals could be perceived as one of non-financial performance, which is an important measurement for Taiwanese firms' strategic development. This finding presents the importance of congruent goals and objectives between Taiwanese and Chinese venture partners are the first step to serve their interests in forming a JV. It is also the trigger for successful JV performance, since venture partners must reach a certain degree of consensus before they carry out the joint operations and managements. In other words, the process of reaching consensus can facilitate the understanding of partners for effective intercultural cooperation. The findings also suggest that most Taiwanese firms use JVs to serve them with both strategic short-term and long-term objectives to interact with a fast changing environment. From a strategic point of view, the short-term objective of Taiwanese investors might focus on stability and effective complementariness for JV organisations, because both partners have different

backgrounds, values and attitudes towards the JV structure. On the other hand, in the long term Taiwanese firms might concentrate on profit-making through a series of adjustments in the strategy of JVs to achieve satisfactory financial and non-financial performance. In other words, the well-planned objectives or goals of firms in a JV might be increased in terms of its performance, which might be one of the key motivations for forming a partnership (Yan, 1998).

More specifically, firms needed to rely on a compatible partner as well as congruence of strategic objectives and goals based on the complementary concept of creating a competitive position in the market even though partners have different control capabilities within the JV structure. My results have confirmed this point, because the JV partners considered the benefits and advantages to both sides before forming a JV structure. Also, the results suggest that each of the Taiwanese firms contained several main objectives and goals in different stages of their cooperative projects, which were incorporated into their individual investment strategies in China to create ongoing performance by utilising their partners' resources (see Interview Table 7.1 in Appendix B).

In the light of this research findings, because of the different nature of firms' specific resources and capabilities in the JV, the strategic objectives and goals between partners will probably continue to be varied in terms of resources exploitation, efficiency management, costs minimising and productions development. 'Same bed, but different

dreams', as JVs have been referred to by many previous studies on JVs, which have indicated that differences in strategic objectives will continue to be seen in cooperative organisations disregarding partners' nationality backgrounds. Whether the strategic objectives of both Taiwanese and Chinese partners are realised, the JV plays an important role and provides a good reciprocal ground for both partners to achieve their goals by contributing their competitive advantages. In other words, although partners have different strategic objectives or business missions to attain, if there is a great potential market opportunity, then both parties will make every possible effort to reach the strategic consensus for achieving successful JV performance.

8.4 Summary

According to the research analysis (see Chapter 7), it was found that the motives for JV could be categorised into two sets of factors: exogenous and endogenous factors. Both are consistent with the exploratory and explanatory aims of the study. On the one hand, the author tried to tease out all the possible motives for JV formation from Taiwanese firms. On the other hand, the authors tended to explain why the JV market entry mode was important to Taiwanese firms. In addition, performance factors were shown in the study to reveal general performance and the development of Sino-Taiwanese JVs.

Exogenous factors can be seen as the single most important aspect of Taiwanese firms' motivation to adopt a JV strategy. This is consistent with previous studies of IJV motives (Lu, 2001; Buckely & Glaister, 1996) that supported the view that economic, political, institutional and cultural issues in the host country seemed to have a critical effect on creating the platforms for establishing a JV. This suggests that several of these external considerations tend to be the major motives behind establishing JV formation.

1. Deterioration of Taiwan's Economic Environment – the findings pointed out that Taiwan's deteriorating investment environment appears to be the most important reason to drive Taiwanese firms to establish JVs in China. Taiwanese firms want to escape economic pressure from domestic markets. Furthermore, the Taiwanese government is reluctant to support Taiwanese investors in moving business to China.

2. **Attractiveness of the Chinese Market** – China is the largest recipient of foreign direct investment in developing economies (Child & Yan, 1999), because Chinese markets provide potential market opportunities, better economic incentives, and abundant cheap materials and labour resources. In order to access Chinese markets successfully, a JV is one of the market strategy options for Taiwanese firms to establish their presence in China efficiently.
3. **Political Tension between Taiwan and China** – Historically, Taiwan and China have been in a difficult situation for several decades, and the political conflicts have produced a negative effect on firms' business development. As a result, a JV provides a safety net for firms which can be utilised to assist them to move to China.
4. **Institutional Instability** – The weak rule of institutions in China has created the problems of incomplete and asymmetric information, which possibly leads in turn to corruption and bribery in China. Since people, not laws, have ruled China partners could therefore partially overcome the problem of institution instability through JV.
5. **Chinese Partner's Capabilities** – Through partnership relations, Taiwanese firms have a chance to utilise partners' skills and local knowledge to access crucial resources in the Chinese market. Thus, a JV could be recognised as an effective strategy to obtain large benefits via a partner's capabilities.

6. Cultural Similarity - The similar cultural traits offer several advantages to Taiwanese firms: 1) Taiwanese investors seem to be more flexible than other foreign partners; 2) firms increase their bargain power when in a negotiation process with Chinese partners; 3) Taiwanese firms more easily reach strong consensus in JV operations. Since partners from the two similar cultures can simplify the negotiation process and speed up the establishment of JVs (Cheng, 1997), they will experience better communication and working relationships than Sino-foreign JVs (Li, Lam and Qian, 2001).

The endogenous aspect focuses on the factors that influence JV organisation, such as the importance of trust and commitment relationship, and strategic ownership structure and control. As well as Sino-Taiwanese JVs performance, this was measured by financial and non-financial terms to evaluate the satisfactory level of JV business.

1. Strategic Ownership and Control – Strategic ownership provides a control basis on which to monitor cooperation activities. This ownership relationship utilises the equity shares to obtain a certain degree of control in a specific area to achieve both individual and group performance. Strategic ownership in JV organisations provides a choice for parent firms to gain control in spite of previous business relationships.

2. Trust and Commitment – Trust seems to be a ‘transferable’ characteristic (Tan & Aken, 1999, p. 11) that combines with effective interpersonal relationship networks, which might help firms to increase the effectiveness of the JV function. Giving this intriguing mix, Taiwanese firms might take advantage of JVs positively to encourage the Chinese to participate actively in JVs’ contributions in order to fulfil JV commitment.

Additionally, the performance of Sino-Taiwanese JVs formation could be explained by the two performance measurements: financial and non-financial.

1. Financial Perspective – It is apparent that profitability is the important factor to motivate Taiwanese firms to cooperate with Chinese partners in the long term. Understandably, not all unprofitable businesses in China mean poor company’ performance. However, it would give public and business partners a negative image of firms’ operations and indicates a structure of instability. In other words, the findings emphasise research on financial performance to achieve success in collaborative business formation.
2. Non-Financial Perspective – Apart from profitability measurements to examine JV performance, other aspects should be taken into account to reveal real success in JV performance in China. For instance, Taiwanese firms possess effective managerial

skills and systems, which might be the most important reason to facilitate a JV's efficiency and strengthen its competitive position in the market. Moreover, both Taiwanese and Chinese share a common culture and speak a common dialect, which enables them to reach a high degree of consensus within the JV organisations, establish strong trustworthy relationships against opportunistic behaviours and create barriers for potential competitors.

In general, the differences in factors for JV and network motives were correlated with each other. This provides clear evidence to show that firms from Taiwan might need to rely on JV formation and human relationship approaches to sustain their business growth or expansion by exploiting Chinese market opportunities and resources to achieve their objectives. Considering the fast-changing Chinese market environment, cautious and appropriate approaches to China are necessary. Therefore, further integration of common interests and the establishment of strong trustworthy relationships with local partners in cooperative business formations would help Taiwanese firms to eliminate possible potential risks and achieve business success in China.

Chapter IX Conclusions & Recommendations

9.1 Conclusion

In this study, the author has sought to uncover the significance of Chinese types of social networks (guanxi) for Sino-Taiwanese JVs firms in the P.R.C. Conceptually, the formation of Sino-foreign JVs amplifies the effect of cultural differences between partners. The results of this study show that cultural similarity is an advantage that Taiwanese firms enjoy in their collaboration with Chinese JV partners. Cultural similarity also helps them develop mutually trustworthy relationships and close ties to enhance the efficiency of joint operations.

In the analysis of this study, the guanxi networks are found to be a critical factor in determining Taiwanese firms' final selection of cooperative partners, and this sheds light on the importance of guanxi within the rigorous partner screening process. Guanxi also provides the rich and valuable information that is vital to increase a firm's competitive position. Guanxi provides cost effective information and it is more reliable means of obtaining information. These findings confirm that the dynamic guanxi function in Sino-foreign cooperative organisations facilitates the operational alignment of JV partner firms by minimising the differences in culture between firms.

The findings have also revealed how Taiwanese firms interact with Chinese partners by using their culturally similar background in the context of a political hostile environment. Despite competitive pressure in the Chinese market, the complementary strategic JV in China facilitates effective 'resources exchange' (as shown by Luo & Yan, 2001) and 'transaction cost reduction' (as shown by Bertrand & Meschi, 2005), which in turn increases competitive advantage by explaining the motives of Taiwanese firms for adopting the JV and networks together. From a resource exchange perspective, the inter-organisational relationships provide the linkage that provides a synergetic function through resource sharing and transfer that are essential to serve their resources' complementary purpose (Hoffmann & Schlosser, 2001). Also, from a transaction cost perspective, firms in the market are associated with different levels of costs regarding environmental and behavioural uncertainties (Standifird & Marshall, 2000).

This research therefore provides Taiwanese firms with the advantage of internalisation through greater access to resources from JV partners and reduced overall costs. The first aim of this study was to explain that Taiwanese firms doing business in China are primarily concerned with cost reduction, resources availability and market accessibility. Therefore, forming a JV with Chinese partners satisfies their requirements and reduces further uncertainty in the unfamiliar market environment.

Consistent with Luo & Yan's (2001) insights into the importance of guanxi to international JV practice and development in China, this study finds that guanxi networks offer many crucial benefits for Taiwanese firms when conducting business in the P.R.C., though they understand that relationships do not guarantee business success when operating in an opaque environment where the high risks associated with weak laws and political instability can hinder a firm's performance. Nevertheless, building guanxi relationships still plays an important functional role in bringing about positive business outcomes. This may suggest that who you know is more important than what you know for Taiwanese firms in Sino-Taiwanese JV companies, particularly in an environment that lacks a stable legal and regulatory framework.

The second aim of this study was to focus on the important business role played by Chinese interpersonal relationships (guanxi) in the IJVs in order to create a better understanding of Taiwanese firms' motivations for forming cooperative organisations in the P.R.C. The study argues that such guanxi relationships can improve the competitive position of these firms and their market power during JV interactions. The dynamics of guanxi function were extensively addressed in Chapter 3, which focused on guanxi usage and its significant role in facilitating the establishment and development of long-term cooperation with Chinese business partners. More specifically, guanxi practice in the

business context is shown to allow guanxi participants to achieve their goals and objectives by building up continuing cooperative relationships on a long-term basis.

Fundamentally, social networks share many commonalities with Chinese guanxi relationships. Therefore, the relevant literature on social networks was examined and comparisons made with Chinese guanxi relationships in order to establish the significant differences and commonalities. The aim was to explain their important roles in a JV setting in both the Western and Chinese cultural context. The identification of important factors, interactions and approaches has shed light on the level of significance of networks and how they influence organisational behaviour and organisations' decision-making in the context of cooperation. The findings of this study leads to a challenge of Guthrie's (1998) view that the significance of guanxi within China's economic transition was declining. In the case of Sino-Taiwanese JVs, Taiwanese investors must give special attention to their guanxi relationships at each stage in the development of a JV in China, as this is essential for achieving good outcomes. For example, close guanxi ties deliver a higher level of reliable information which enables Taiwanese firms to sustain their daily business operations and minimise conflicts between their venture partners. Second, it is important for Taiwanese firms to maintain strong relationships between partners as well as other business organisations in order to enhance their competencies and competitive position using the

benefits of the learning process. Third, the most important benefit of strong or special guanxi provided the safety net function for Taiwanese firms in the Chinese market, because they might be able to use their business partners to overcome unanticipated changes. Furthermore, their partners may help them to exit the market if they consider that they are no longer benefiting from the Chinese market.

With regard to the research methodology used in this study, the triangulation research model enables the author to provide a systematic examination of potential Taiwanese firms' motives for strategic JV and networking in Chinese markets from the perspective of Taiwanese partners. The triangulation data collection method is comprised of both quantitative and qualitative approaches, which provide a valuable way to address the strategic JV motives of Taiwanese investors in China. The hypotheses are produced and examined regarding the various motives related to the external and internal environment and circumstances (see Table 9.1).

Several important motivating factors have been identified through systematic analysis, such as Taiwan's deteriorating economic environment, political and institutional instability on the Mainland, strategic ownership and control in joint management. These factors have been divided into exogenous and endogenous categories to support the author's hypotheses

and explain clearly these key motivators for forming partnerships between Taiwanese and Chinese companies (see Chapter 8).

Table 9.1: The Results of Hypotheses

Main Themes	Hypotheses	Accepted or Rejected
The Political and Economic Situation	<i>H 1.1 The Taiwanese set up IJVs in the P.R.C., rather than other forms of International Business, and this is motivated by the specific need to reduce business risks and costs</i>	<i>Accepted</i>
	<i>H 1.2 to access investment incentives and compliance with regulations.</i>	<i>Accepted</i>
	<i>H 1.3 to access regulated industrial sectors.</i>	<i>Accepted</i>
	<i>H 1.4 to access their Chinese partner's resources and capabilities;</i>	<i>Accepted</i>
	<i>H 1.5 to off set the risk of political and military tensions.</i>	<i>Accepted</i>
Culture and Language Similarity	<i>H 2. The Taiwanese set up IJVs in the P.R.C. due to the similarity of their cultural background</i>	<i>Accepted</i>
	<i>H 2.1 common culture facilitates the building of trust.</i>	<i>Accepted</i>
	<i>H 2.2. shared language eases business negotiations.</i>	<i>Accepted</i>
Strength of Guanxi Networks	<i>H 3. The Taiwanese and Chinese common use of guanxi in personal and business relationships, assists IJV performance</i>	<i>Accepted</i>
	<i>H 3.1 in initial partner selection.</i>	<i>Accepted</i>
	<i>H 3.2 in business management and operations.</i>	<i>Accepted</i>
	<i>H 3.3 in dealing with the difficult legal and political condition.</i>	<i>Accepted</i>
Management and Operation	<i>H 4 The Taiwanese seek to gain control of the IJVs in order to improve the businesses' chances of success.</i>	<i>Accepted</i>
	<i>H 4.1 to function effectively within the political and legal environment.</i>	<i>Accepted</i>
	<i>H 4.2 better to secure their substantial financial commitments in China.</i>	<i>Accepted</i>
	<i>H 4.3 to utilize well established Taiwanese managerial and business skills.</i>	<i>Accepted</i>

The primary central theme of the research has been the motives of Taiwanese firms for forming JVs in China as well as the characteristics and development of Sino-Taiwanese JVs in an opaque Chinese market. The analysis reveals the actual driving force behind the firms when they decide to opt for the JV strategy. The second central research theme focuses on the value of *guanxi* for Taiwanese firms in each JV, in particular the way it helps these firms to overcome various challenges at different stages of the collaboration with Chinese firms and increases the long-term prospects for achieving maximum benefits in the Chinese market.

The research findings suggest that Taiwanese firms who employ the strategic JV mode in China benefit from venture partners' resources such as raw materials, technology, finance assistance, know-how, managerial expertise, legal dispute avoidance, marketing channels, and political networks. Clearly, these driving factors behind Sino-Taiwanese JVs can be divided into two distinct groups: exogenous and endogenous. (1) The exogenous factors, encompassing the economic, political, cultural, social and institutional aspects, were usually created by significant external environment uncertainties and provided foreign firms with the reasons to form a JV, i.e. to access low-cost resources and potential market opportunities. (2) The endogenous factors encompassed the effect of managing staff, working relationships or sharing operational tasks between two parties. Thereby, the

importance of human relations was emphasised, because this created long-term mutual complementary relationships in a joint organisational structure.

Overall, the research evidence suggests that the possible significant motives of Taiwanese firms for forming a JV in China probably account for unanticipated environmental factors. This study identifies five major motives for forming Sino-Taiwanese JVs. Each has a significant effect on firms' determinations and organisational structure, for instance, the environment with fast-changing economic development, unstable political condition, dissimilar culture traits and inefficient managerial skills. The five motives are as follows:

9.1.1 Strong Economic Cross-Strait Relations

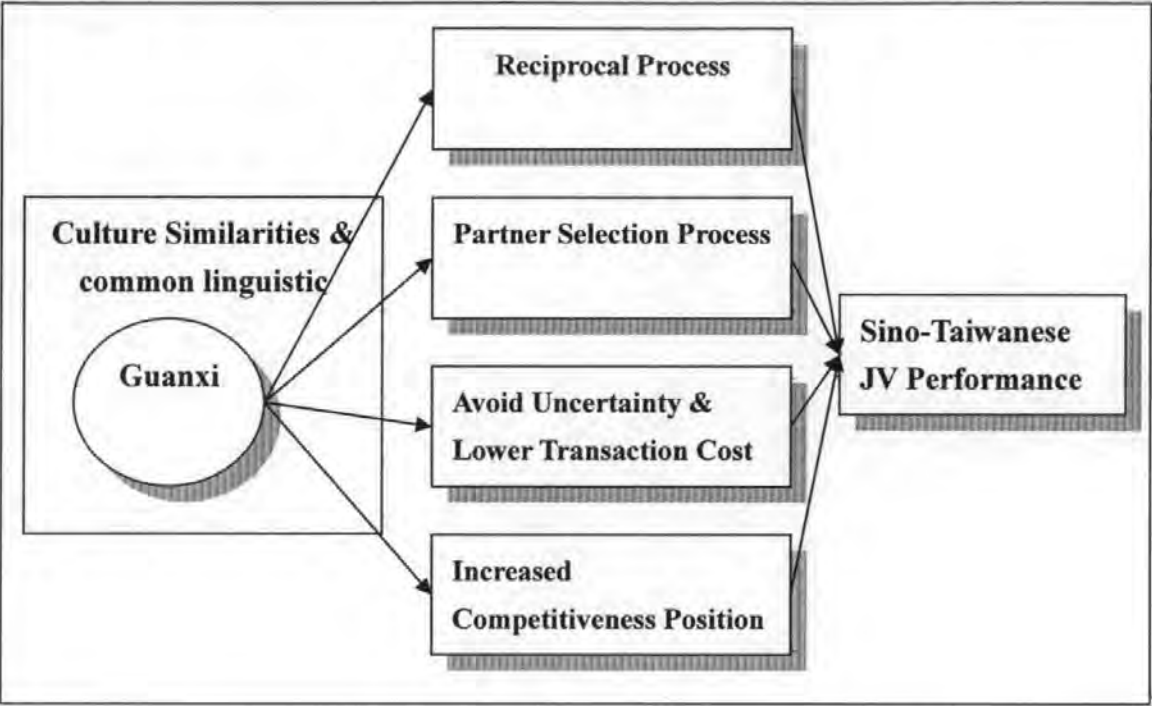
It is apparent that the economic environment is a major reason for Taiwanese firms to undertake a JV strategy based in the uncertain Chinese environment, where potential threats might otherwise cause substantial losses for foreign companies doing business in the P.R.C. Although Taiwanese enterprises' over-dependence on Chinese resources seems to be undeniable, for many small and medium size firms investing in China it is likely to be the only way to sustain business growth. A JV strategy possibly provides the necessary capacity for certain Taiwanese firms to respond to the rapid changes in Chinese economic conditions and environments. Therefore, it can be said that the economic circumstances in

Taiwan and China provide an important economic reason for Taiwanese firms to engage in JV behaviour.

9.1.2 The Importance of Similar Culture and the Guanxi Factor

A positive relationship was found between cultural similarity and JV operational effectiveness. Cultural awareness helps partners prevent operational frustration and even business failure. As the research shows, common cultural traits and a similar dialect facilitate interaction and collaboration with the Chinese and have strengthened Taiwanese investors' competitive advantage in Chinese markets, particularly vis-à-vis other foreign investors in China. According to the evidence of this study, guanxi is prevalent between Taiwanese and Chinese firms, and venture partners' ongoing interactions may be seen as a part of guanxi practice. While the significance of cultural similarity has been emphasised for Taiwanese firms in JVs from different angles, the dynamic function of guanxi relationships can reveal the important value for Taiwanese firms in cooperating with Chinese partners. In particular, the findings of the research are consistent with the conclusion drawn by Standifird & Marshall (2000), who found that guanxi-based business practices provide the advantage of transaction costs reduction, which would further minimise the impact of unanticipated environmental and behaviour risks in the Chinese market.

Figure 9.1: The Importance of Guanxi Networks for Sino-Taiwanese JVs' Performance



9.1.3 The Importance of Strategic Management in JVs

Apart from endogenous factors, an important issue in Sino-Taiwanese JVs is the complexity of internal joint management in terms of production, operation, marketing, administration, and decision-making. In the cooperative process, frequent human interaction between two venture parties encourages co-managing effectiveness and efficiency. Such an approach with Chinese partners clearly indicates that ‘guanxi’ relationships offer great advantages for smooth and effective cooperative management. This research has noted that Chinese business networks are heavily infused with the Confucian concept of five cardinal relationships (see p. 101), which continuously stress the significance of a harmonious working atmosphere and relationships between business

partners. Cooperative management is associated with sequential problems, but informal business relationships in a JV structure help coordinate operational activities and remove potential threats and conflicts during cooperation.

The performance of Sino-Taiwanese JVs was reported to be satisfactory. Taiwanese venture parent firms and their expatriate managers emphasised that the *guanxi* relationship was the most critical component for enhancing effective day-to-day management in Sino-Taiwanese JVs. Unlike other foreign investors in JVs who usually perceive that cultural difference impedes managerial performance, Taiwanese investors look to managerial control to consolidate their position in JVs and enable them to overcome any difficulties, which include the opportunistic behaviour of partners during the cooperation.

In this study, the findings suggest that Taiwanese managers in JV organisations have an effective way of managing day-to-day JV operational activities in China. Indeed, it appears that Taiwanese managers may perform better than their Chinese partners. Perhaps this may be attributed to the mixture of Western styles of management efficiency, Japanese type persistence and a harmonious Chinese character that creates unprecedented management styles in managing Sino-Taiwanese JVs in China (see Chapter 1). Through developing the mutual *guanxi* connection, Taiwanese and Chinese managers are able to exchange

important information to improve overall management efficiency. The research results suggest that Taiwanese managers enjoy their advanced management knowledge and skills in Sino-Taiwanese JV management, but this advantage might result in misunderstandings of ethnic superiority. Therefore, the developments of good *guanxi* between the managers of both partner companies appear to be critical to JV performance. In this study, the evidence shows that Taiwanese firms gradually transfer their operational and managerial responsibilities to local managers, which enables the Taiwanese firms to enhance their competitive advantages and lower the costs of management.

The findings also show that cultural factors significantly influence JV interactions between Taiwanese and Chinese managers and firms. The evidence has shown that Taiwanese managers seem to appreciate fully the value and behaviour of Chinese partners, which provides a good foundation for interactions within the inter-organisational structure, for the duration of the cooperative process. As discussed in the interview data analysis, Taiwanese firms certainly appreciate that they share many cultural similarities with their Chinese partners (see Table 7.1 in Appendix C) which enable them to communicate and collaborate on a long-time basis. However, the conflicts and negotiations seem to become more complex, which may influence a JV organisation's decision-making in response to market changes. In the factor analysis too, it was found that similar culture has a positive effect on

the Sino-Taiwanese JV management (see section 7.3.3.3).

Results from the interviews also suggested that Taiwanese managers have a greater obligation to design a dynamic solution to resolve managerial problems. Thereby, guanxi not only increases the interdependence among partners, but it also helps managers to facilitate the knowledge and skills transfer process in order to enhance JV development. Since Chinese partners show great interest in learning advanced technology and management, the reciprocal guanxi relationships must be established in the first place in order to allow managers in both sides to obtain benefits from a reciprocal knowledge transfer process.

Given the challenge of conventional managerial concepts used by Chinese partners, the strategic guanxi approach is needed because in Chinese firms there is a strong tendency to carry out tasks as a group instead of as individuals in order to escape responsibility. It is interesting to note that interviewees associated a guanxi relationship positively connected with JV development and performance, although guanxi constantly demanded participants to invest money, time and effort.

9.1.4 The Importance of Ownership Structure

As long as Taiwanese firms retain equity joint identity, then venture partners must obtain different degrees of control over joint economic activities because of inter-organisational complexity.¹ Results from the analysis revealed the fact that Taiwanese firms prefer to possess majority ownership in JVs, and Taiwanese firms are more likely to utilise the rules of formal codes in JV to control overall activities. Specifically, they not only had control of JV activities, but they are likely to be better off in terms of profitability. Most important of all is that they can reduce reliance on their partners in order to prevent their opportunistic behaviour. Not surprisingly, Taiwanese investors indicate that they notice the drawbacks of the dominating control strategy while working with Chinese partners, such as the large costs of investment, low flexibility in Chinese markets and lower satisfaction in working with *guanxi* relationships. Nonetheless, majority ownership has produced performance satisfaction with cooperative relationships. On the one hand, partners who have dominant control are able to maintain or terminate cooperative relationships in any time. On the other hand, they appear to have stronger bargaining power for collaborative activities during the cooperation practice. Therefore, the major decision-making issues are likely to depend on final approval from Taiwanese partners who possess large equity shares within the JV formation.

¹ Powell (1990) describes that the equity kind of cooperative firm can be quite complex; particularly, it is complemented by various agreements, such as research contracts from the larger firm, and often loan and other financial agreements (p. 315).

In general, this research has identified the main strategic motives of Taiwanese investors for forming JVs in China, ranging from exogenous factors through to endogenous factors. This study has addressed the strengths and weakness of Taiwanese investors in China and provides insight into the performance of Sino-Taiwanese JVs. Additionally, the dynamic function of *guanxi* networks has been shown to be particularly important in the cooperative business organisation for both Taiwanese and Chinese parent firms in a JV formation. They have to learn how to cooperate with each other. Also, the fundamental cooperative elements such as communication channels, personal relationships and management systems have to reach certain levels of consensus before venture participants actually begin any JV activities so that conflicts and costs are kept to a minimum.

9.2 Contributions to the Body of Knowledge

As the author mentioned at the outset, there are no previous studies that give special attention to Taiwanese investors' motives for understanding a cooperative strategy in China. In particular, the existing studies do not address or identify the importance of *guanxi* for Taiwanese firms when they are thinking of entering the Chinese market. For this reason, this research has analysed Taiwanese firms' strategic motives in relation to Sino-Taiwanese JVs and has examined their development over time, since a number of previous studies have consistently emphasised that Taiwanese investments and investors have an influential

impact on Chinese economic development. Awareness of the importance of guanxi networks and cultural similarities has facilitated the JV development process between Taiwanese firms and their Chinese venture partners. In this connection, this study has drawn attention to the proliferation of guanxi networks as part of the strategic approach to JV practice in China. The author began by reviewing the previous literature on IJV formation, purpose, partner selection, variations, and cross-border cooperative strategic management in order to understand IJV cooperation frameworks. First, the research focused on explaining the critical factors that are involved in forming a partnership in an unknown environment, and it showed that a cooperative structure is of strategic importance to foreign firms struggling for market influence and competitive position in the host country. Second, the inter-organisational structure of an IJV may result in internal problems of partner compatibility. For instance, venture partners usually have different backgrounds, experience and capabilities.

Understanding the importance of personal relationships relates to the China-Taiwan inter-organisations, because Chinese guanxi relationships can enhance the efficiency of operating practice and may create a harmonious working relationship for partners when pursuing long-term joint benefits. The author found that the guanxi relationship carries an instrumental function that may be seen as a primary motivation for cooperating with

Chinese partners in the JV context as a means of obtaining scarce resources and of opening up market opportunities. It has beneficial influence on operations and management in Sino-Taiwanese JVs. Undoubtedly, these results sit well with the current Sino-foreign JV studies, especially with regard to the implication of the guanxi networks.

A further unique feature of this study is that the author is Taiwanese and as state in Chapter 6 this allows for a more empathetic study (p. 242). Clearly, the findings of this study have added a new dimension to literature on the role of guanxi networks in overcoming political and economic barriers to international JVs or strategic alliances. The guanxi relationship provides the advantages of strategic cooperation between firms and the benefit of complementary relationships during the cooperation process. This study therefore represents the basis for further research in this particular area.

9.3 Recommendations for Future Research

Since there is a paucity of previous research in the specific area of Taiwanese firms' IJV strategy in Mainland China, this study has highlighted the role and relationship of 'JV' and 'guanxi network' within the context of the political and economic relations between Taiwan and China by identifying what motives determine the Taiwanese investors' decision to choose a cooperative structure. To a large extent, JVs between Taiwanese and

Chinese in China differ somewhat from Sino-foreign JVs in terms of approach, development, and termination strategy. With such complex issues involved in a JV formation, further research in this area is highly recommended.

There is no doubt that research on IJVs in China has attracted much attention in terms of the special environment and settings. Taiwanese investors are certainly playing a very important role that may result in substantial influence on the process of Chinese economic reform (see Table 1.1); for instance, enormous foreign direct investments and trade, key technological skills and knowledge, but the cooperative strategy between the Taiwanese and Chinese may not always be a productive way for partners to achieve their goals and objectives. In this regard, there is less known about failed cases of Sino-Taiwanese JVs, especially in the case of most factors which force partners to cease their cooperative relationships and eventually terminate their JV projects. Unlike other studies that persistently suggested that 'failed' cooperation projects can be treated as a learning experience which 'facilitates successful development of subsequent cooperation initiatives' (Van Oudenhoven & Van Der Zee, 2002, p. 650), for most foreign firms such cross-cultural cooperation might be their only chance to achieve business success. Therefore, it is more sensible to recommend that firms who adapt the JV approach should be aware of each stage in such cooperation, and should devise a contingency and exit strategy in advance in

order to be ready for all eventualities. At the same time, it is necessary to investigate further the Taiwanese partners' strategic behaviour in the case of failed Sino-Taiwanese JVs, because it will provide some insight for potential Taiwanese investors who may wish to adopt a cooperative strategy in order to access Chinese markets.

This study on Sino-Taiwanese JVs has systematically analysed the motives and strengths of Taiwanese firms in the JV formation, especially the way cooperative strategy enables them to face potential risks. Yet conflicts during cooperation are inevitable and can create negative consequences. If partners cannot find a means of effective communication or negotiation the value of cooperation would probably be destroyed. Therefore, this research lays the basis for a deeper understanding of general Sino-Taiwanese JVs activities and development. As the limitations of the research have been addressed in Chapter 7, a few additional points about research methodology may suffice to provide a theoretical explanation of Sino-Taiwanese JVs for future research.

An absence of views from Chinese partners may create a one-sided impressions and lead to false arguments on the development and performance of the Sino-Taiwanese JV context. This issue should be further explored to understand the nature of Chinese partners' cooperative approach and behaviour and which particular circumstances or environments

would be most effective in increasing competitive advantage. As Buckley & Glaister (1996) note, the cross-cultural cooperative strategy would yield more valuable information if groups or individuals can be compared in terms of their strategies, operations, management, performance, and characteristics in relation to the cooperative organisations' issues. This approach could help capture the fundamental factors of establishing a cooperative organisation in China.

The research focuses more on the important characteristics of Sino-Taiwanese JVs and development than on the performance of ventures. The limitation of sample size and resources means that there is still considerable scope for investigating the success and failure of Sino-Taiwanese JVs in this vast geographic area. The unsuccessful JVs are required to pay special attention to the factors that force venture partners to terminate or cease the cooperation process. Their experience may show that the importance of networks can help partners deal with different types of problems during the joint operation and enhance the effectiveness of JV cooperation in China.

In addition, the author has argued that, given the limitations of quantitative analysis and the negative impact of political tensions between Taiwan and China on Taiwanese firms in China, the reliability of quantitative results is questionable and further research needs to

target larger sections of the business environment to identify the relative performance of Sino-Taiwanese JVs in each industry. It has been argued that JVs function differently in respect of resources such as capital investment, new facilities and operational inputs (Child & Yan, 2003). Hence, it makes sense to suggest that further research should examine Sino-Taiwanese JV performance in different sectors.

The JV motives identified by qualitative measures are a sound basis for obtaining further information about the process of China-based JV organisations' development in terms of the renegotiation of JV structure by both Taiwanese and Chinese partners or the cessation of JV operations and terminating of projects. Since in face-to-face interview not only can one earn greater trust from informants, but one can also contribute more valuable data to examine JV formation, development, interactions and performance. For future JV research, a larger number of interviews and cases studies would be suitable for studying the impact of political and military confrontation on Sino-Taiwanese JVs.

The increasing market competition and economic improvements in China are making the Chinese government more open and are attracting more foreign firms to access the Chinese market solely through WOE's instead of the collaborative form. In particular, foreign firms who seek partnerships to enter China have encountered complicated problems associated

with various issues such as control and management within the collaborative organisation.

In recent decades, the wholly owned company has become the most popular entry mode for foreign firms because of the higher chance of achieving success (Mechem, 2004).

Wholly owned enterprises are immune to the pressure from Chinese partners who wish to absorb crucial knowledge and so WOE's are better placed to protect their assets than they would be in a collaborative formation. Nevertheless, there are signs in recent years of a gradual increase in Sino-Taiwanese JVs despite the popularity of the WOE entry strategy.

This may indicate that Taiwanese firms have more confidence to manipulate the cooperative organisation or to combine it with other entry strategies in order to formulate a contingency plan against the potential drawbacks of the JV structure.

In this sense, a single entry mode should not be considered as the only solution for foreign firms to achieve business success in the opaque Chinese market. Though the JV strategy remains one of the most popular entry modes for firms, it would be wrong to suggest that only through such strategic cooperative process can firms achieve their ultimate goals for successfully operating in such emerging markets. Rather, the JV formation, combined with other entry strategies needs to be seen and discussed in future research on Sino-foreign JVs across different industrial sections in the study. More specifically, the findings of the study reveal that introducing a third party to a Sino-Taiwanese JV structure might be advisable.

Indeed, the multinational JV might 'increase the scope for competition and new opportunities for cooperation' (Buckley & Casson, 1998). However, for Taiwanese firms such an approach probably places strong emphasis on the benefits of risk sharing, and it provides a useful intermediary between JV partners. Clearly, Taiwanese firms are able to shift the potential political risks to their third venture partners through the notion of JV collaborative strategy. Therefore, Taiwanese firms may perform more effectively in such a multiparty alliance. The benefits of forming multiparty JVs are that Taiwanese partners can serve as an important medium for Chinese and foreign partners, since they engaged in international markets much earlier than their Chinese counterparts. This view suggests that Taiwanese firms are more capable of untangling such complex management and operations systems in multiparty JVs and therefore are more capable of developing long-term business cooperation in China.

In this study, also raises another interesting issue about Taiwan, Hong Kong, Macau and other overseas Chinese regions being the major source of China's FDI inflow (see Table 9.2). As mentioned in Chapter 1 (p. 15), when the Chinese government opened up its door to the world, the ethnic Chinese from Hong Kong, Taiwan and Macau seized the business opportunities and increased their trade and investment to maximize their profits from China. Clearly, it can be found that *guanxi* through speaking the same language and

sharing the common culture give ethnic Chinese an excellent opportunity to access the Chinese market by minimising the Chinese authorities interference. From overseas Chinese point of view, they think that China is not only an important manufacturing base to them, but it also provides an important link to the global market. Because of this reason, the author suspects that these overseas Chinese may put some degree of pressure on mainland Chinese since they are still perceived by mainland Chinese as a group whose wealth and economic power may have substantial influence on Chinese economic reform. According to Zhang's (2006) study, although the Chinese government established restricting regulations on outward direct investment, more than 5,000 Chinese enterprises invested in 149 countries and regions with cumulative overseas investment of U.S.\$ 45 billion. The motivation for outward investment is securing and accessing natural resources, technology, and brands. It may be evidence to show that mainland Chinese businesses are gradually playing of more aggressive role in the framework of global business to alleviate some competitive pressures from the Chinese domestic market.

The findings of this study also indicate that the economic exchange between Taiwan and China will continue to grow rapidly despite its unstable political relations. The cross-straits political factor will continue to influence the future Taiwanese businesses development in China, so flexible business strategies are required to deal with changes in the China-

Taiwan economic and political environment, and enable them to sustain their competitive edges and profits.

Table 9.2: The Major Source of China's FDI Inflow

Country/Region	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Amount										
Total	2751495	3376650	3752053	4174548	4527701	4546275	4031871	4071481	4275070	4739689
Hong Kong, China	1727475	1966544	2006037	2067732	2063200	1850836	1636305	1549998	1671730	1786093
United States	206312	249080	308301	344333	323915	389844	421586	438389	443322	542392
Taiwan	313859	339104	316155	347484	328939	291521	259870	229658	297994	397064
Japan	132410	207529	310846	367935	432647	340036	297308	291585	434842	419009
Singapore	49004	117961	185122	224356	260641	340397	264249	217220	214355	233720
Virgin Island			30376	53761	171717	403134	265896	383289	504234	611739
Korea	37381	72283	104289	135752	214238	180320	127473	148961	215178	272073
United Kingdom	22051	68884	91414	130073	185756	117486	104449	116405	105166	89576
Germany	5625	25899	38635	51831	99263	73673	137326	104149	121292	92796
France	14141	19204	28702	42375	47465	71489	88429	85316	53246	57560
Macau, China	58650	50937	43982	58039	39455	42157	30864	34728	32112	46838
Netherlands	8400	11105	11411	12511	41380	71882	54168	78948	77611	57175
Canada	13688	21605	25702	33793	34412	31652	31442	27978	44130	58798
Malaysia	9142	20099	25900	45995	38183	34049	23771	20288	26298	36786
Australia	10996	18826	23299	19392	31374	27197	26331	30888	33560	38070
Sharing in total %	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Hong Kong, China	63%	58%	53%	50%	46%	41%	41%	38%	39%	38%
United States	7%	7%	8%	8%	7%	9%	10%	11%	10%	11%
Taiwan	11%	10%	8%	8%	7%	6%	6%	6%	7%	8%
Japan	5%	6%	8%	9%	10%	7%	7%	7%	10%	9%
Singapore	2%	3%	5%	5%	6%	7%	7%	5%	5%	5%
Virgin Island	0%	0%	1%	1%	4%	9%	7%	9%	12%	13%
Korea	1%	2%	3%	3%	5%	4%	3%	4%	5%	6%
United Kingdom	1%	2%	2%	3%	4%	3%	3%	3%	2%	2%
Germany	0%	1%	1%	1%	2%	2%	3%	3%	3%	2%
France	1%	1%	1%	1%	1%	2%	2%	2%	1%	1%
Macau, China	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%
Netherlands	0%	0%	0%	0%	1%	2%	1%	2%	2%	1%
Canada	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Malaysia	0%	1%	1%	1%	1%	1%	1%	0%	1%	1%
Australia	0%	1%	1%	0%	1%	1%	1%	1%	1%	1%

9.4 Summary

The conclusions of this study of Sino-Taiwanese JVs are consistent with previous research on the motives behind an international JV strategy. This study has produced two main conclusions: (1) the importance of external environmental issues and the complexity of internal management and operation systems are all instrumental for IJV development and performance; (2) the dynamic nature of *guanxi* relationships provides necessary benefits for Taiwanese investors who have undertaken the JV strategy to enter Chinese markets. Previous studies have not discussed the over-reliance of foreign partners on *guanxi* networks. However, the case of Taiwanese venture firms may explain the importance of *guanxi* as a necessity to ensure the better performance of JV operations as well as to achieve the success of cooperation in a similar cultural context - in this case among Chinese business partners.

The line of argument is clearly focused on whether such a unique combination of JV and *guanxi* network strategy can represent an important cross-border cooperation model for international JV frameworks. In this case, the Sino-Taiwanese JV may provide valuable insight into whether the influences of complex external and internal factors are the significant determinants of IJV formation for Taiwanese investors wishing to enter the world's largest market - China.

It should be noted that firms which decide to use a cooperative strategy are often driven by their strategic motives (Oudenhoven & Zee, 2002). According to the findings, a JV seems to be a critical strategy for Taiwanese firms to access local domestic markets and to enable them to reach ultimate success. The results of the study also suggest that these JV motives affect JV formation, development, operation and performance. Thus, the following attractions of the IJV in China from the perspective of Taiwanese investors' are recommended for future study.

- 1. Strategic ownership and control** Although the resources that the complementary process brings into the JV benefit the JV partners, control is a crucial issue for each IJV's performance (Yan, 2000; Child & Yan, 2003) in China. In particular, firms must possess special strategic positions to maintain a certain degree of control over JV activities, such as the majority ownership structure or firms' competitive competencies in order to ensure satisfactory JV performance. Nevertheless, control is linked to different ownership structures in order to reduce various levels of risk, which emphasises that different ownership strategy should be considered to incorporate firms' strengths and weaknesses within the inter-organisational structure.

- 2. Effectiveness management** One of important factors in successful JV performance is effective management. There are several important issues related to joint management. For instance, joint management techniques should be perused in order to facilitate the efficiency of joint operations, decision-making processes and in order to overcome partners' competitive behaviour caused by incongruent objectives and goals. Moreover, the cultural background, experience and style of JV managers may have a major impact on the effectiveness of joint management. Because of this, a key managerial position should be created, so that not only foreign firms can gain control over JVs' activities and operations, but firms have more advantages such as specific knowledge and skills from partners which they may not realise on their own (Yan & Child, 2003).
- 3. Partner selection process** Whether partners can join together is dependent on the compatibility of their objectives and resources. Therefore, choosing a compatible partner is a vital process which will influence future JV performance and development. The choice of suitable venture partners should be based on certain partner selection criteria in order to ensure that it becomes possible to cooperate with potential partners for long-term business success. In this sense, the partner selection process can be divided into two aspects: task-related and partner-related, to pinpoint the need for

complementary capabilities in cooperative structures (Geringer, 1991)². For example, partner-related criteria stress each partner's character, culture and history. However, task-related criteria are concerned with the JV's operational and performance characteristics. In addition to this partner selection procedure, it was found in this study that guanxi relationships might be the crucial mechanism for ensuring that firms find a compatible partner in China. In particular, firms from Taiwan rely heavily on different informal guanxi ties in order to overcome different barriers to find a suitable partner in the P.R.C.

By identifying the motivational factors underlying the JV entry strategy used by Taiwanese enterprises in China, the study found significant connections between the perceived economic environment of a JV and its significant characteristics, and these links relate to the value of guanxi relationships in the partner selection process as well as in the interactions within the JV system in terms of operations and management. A sequence of discussion and analysis on the strategic motives behind Sino-Taiwanese JVs presented here sought to explain the reasons for Taiwanese investors' motives for adopting the JV as a mean of investing in China. The author also observed the usefulness of guanxi networks and their significance during Taiwanese and Chinese partnership processes, development

² Al-Khalifa and Peterson (1999) suggest that while there are many criteria in the partner selection list, it is important to simplify the procedures involved in analysing them by establishing broad categories. Therefore, it might be possible to distinguish between 'task-related' and 'partner-related' criteria (p. 1068).

and performance. It can be said that further research on Sino-Taiwanese JVs is justified, not only to explain why Chinese partners are willing to collaborate with Taiwanese firms on a long-term basis and to examine the perspective of guanxi relationships in cooperative business relationships, but also to identify the advantages of a multiparty JV choice for Taiwanese investors entering Chinese markets.

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Glossary of Abbreviations

ARATS – Association for Relations Across the Taiwan Straits

ASEAN – Association of Southeast Asian Nations

CEPA – Closer Economic Partnership Agreement

CJVs – Cooperative Joint Ventures

CNFI – Chinese National Federation of Industries

DDP – Democratic Progressive Party (Taiwan)

EJVs – Equity Joint Ventures

FDI – Foreign Direct Investment

FIEs – Foreign Investment Enterprises

IJVs – International Joint Ventures

JVs - Joint Ventures

KMT – Kuo Min Dang (Nationalist Party in Taiwan)

MNCs – Multinational Corporations

MOEA – Taiwan's Ministry of Economic Affairs

MOEAIC – Taiwan's Ministry of Economic Affairs and Investment Commission

MOFERT – Ministry of Foreign Relations and Trade of the People's Republic of China

MOFTEC – Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China

OECD – Organisation for Economic Co-operation and Development

P.R.C – People's Republic of China

R.O.C – Republic of China

SEF – Straits Exchange Foundation

SEZs – Special Economic Zones

SMEs – Small and Medium Size Enterprises

SARS – Severe Acute Respiratory Syndrome

SPSS – Statistical Package for the Social Sciences

WTO – World Trade Organisation

WOFEs – Wholly Foreign Owned Enterprises

WOS – Wholly Owned Subsidiaries

APPENDICES

APPENDIX A

Interview Information and Questions



Plymouth Business School
University of Plymouth
Drake Circus
Plymouth
Devon PL4 8AA
United Kingdom
Tele: 01752 232800
Fax: 01752 232853

Face to Face Interview

The Characteristic and Performance of Taiwanese Joint Ventures in China

Dear Sir/ Madam:

I am a research student in Plymouth Business School and current investigate the strategic motives of Taiwanese firms for joint venture strategy and the usage of guanxi (interpersonal relationship) across various industries in the Mainland China.

The purpose of the interview is to investigate what motives to determine your firm to move away to China in relation to your decision for joint venture strategy in the Chinese market. The information collected by interview will be used only for academic study in order to understand the insight view of Sino-Taiwanese joint ventures' characteristic and performance.

The interview may take about 60-90 minutes, if you wish to be interviewed, please tick the date and tell me what time is most appropriate time for you to have interview. Please return the interview schedule sheet in the enclosed stamped and addressed envelope.

This research is purely academic in nature, we would like to assure you that all the information have been provided will be kept extremely confidential and only used for an integrated statistical analysis.

Once again, we would like to thank you for your support and corporation toward this research.

Your Sincerely,

Plymouth University, Business School

Supervisors Professor David Head
 Principal Lecturer Lynne Butel

PhD Student Chen-Yu, James, Liu

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Interview Questions: Strategic Motives of Taiwanese Companies
for Joint Ventures and Networks

I. General Information of Joint Ventures

1. Name of joint venture company
2. Name of interviewee and position:
3. Number of employee:
4. Duration of interview:
5. Was the interview tape-recorded:
6. Number of the years the interviewee has lived in China:
7. Gender of interviewee:
8. What industry does your company belong? (**Textile, food, biotechnology & pharmaceutical, manufacturing & constructing, education, trade, shipping & transportation, natural resource, information technology, or others**)
9. What reasons that triggered you or your company to set up business in China?
10. Can you please describe what your company does briefly? (location, products, etc.)
11. How long have you conducted business in China?
12. During the negotiation what were the issues that most difficult to get agreement?

II. Ownership Structure in Joint Ventures

1. What do you select JV for entry mode to enter China?
2. How do you identify or select potential partner alliance?
3. What's the duration of JV with Chinese partners? (**Contractual, equity or others?**) and what date that contract has been signed?
4. What's the objective of your company in joint venture as well as Chinese partner's?
5. What inputs that Chinese and Taiwanese partners have contributed to equity JV?
(**Capital; Product Design; Product Technology; Land; Existing Equipment & Facility; New Equipment & Facility; Brand Name/Trade Marks; Marketing Distribution/Support; Others**)
6. Despite of equity contributions, base on contractual or non-contractual JV what other resources that your company have provided? (**Management System; Product Design; Product Technology; Professional Service; Training; Others**)
7. As a Taiwanese business, do you think that possess majority of shares can gain a better control for JV which can result in better performance? (**If yes, please provide more detail, if no, please can you give me your opinion**).

III. Control Ability in Joint Ventures

1. In your opinion, how much influence is exercised by Chinese and Taiwanese parties in each of the following areas of the international ventures?
(**Allocation senior managerial positions (Taiwanese or Chinese?); Product pricing; Production planning; Development and training policies; Reward and incentive; Purchasing policies; Sales and distribution; quality control; Re-investment policy; Financial control; Technological innovation**)
2. Which parties has overall control during joint venture exercised?

3. Are there any other contracts with parent companies or external bodies, which limit the JV activity in the following areas?

(Product design/content; Production technology; Brand names/trade marks; Marketing & distribution; Suppliers; provisional of management and professional service; others)

IV. Joint Venture Performance (Achievement of objectives)

1. Are you satisfied with the JV's performance with Chinese partner on the following criteria, profitability, growth, market share, technological development, and development of local staff or managers?
2. What are the major achievements of strategic objectives which benefit Taiwanese and Chinese partner sought from JV in the following items?

Taiwanese parent: Establish strong business presence in China; Gain strategic position in China; Diversification of products and services; Attraction of Chinese market; Low-cost sourcing; Low labour cost; Benefit from tax incentives; Facilitate international expansion; Learning how to do business in China; Opportunity for quick profit (first movement advantage); Others.

Chinese parent: Help expand in Chinese market; Help upgrade Chinese suppliers' technology; Opportunity to train or reeducate Chinese staff; Develop export opportunities; Learning management expertise; Ability to import superior goods and components; technology transfer; Employment creation; Obtain foreign cash investment; Others.

V. Operational & Managerial Issues in Joint Ventures:

1. Do you think that management control (included: **strategic, operational, and structure control**) is one of the most significant factors for Taiwanese business to achieve its expectation in China?
2. What date of JV operations started? And current situation?
3. What is the main products and services of the joint venture?
4. In terms of operation facility, are there any new facilities constructed on a new site, or new facilities constructed on a site already used by now of the participating companies, or existing facilities previously used by one of the participating companies?
5. Does JV itself carry out any basic research?
6. Is there any management conflict between your company and Chinese partners? What was it about and caused it? (**e.g., value, culture, behavior...**)
7. Does communication can help you and your partner overcome the managerial problem when conflict arises?

VI. The Importance of Trust & Commitment in Joint Ventures:

1. From Taiwanese point of view, do you think that trust and commitment are significant in JV especially between Taiwanese and Chinese?
2. How much has been reinvested in the JV since its start?
3. Have you or your partners increased its allocation of capital to the JV over the amount originally committed?
4. Is there a long-term plan or vision statement for the JV?
5. Has the JV committed expenditure on the employees' benefit?
6. How long does it take for negotiation process?

VII. The Importance of Cultural Similarity in Joint Ventures:

1. Do you feel that culture issue is important in JV especially with Chinese partners?
(such as: **negotiation process, bargaining power, and others**).
2. If there is a conflict between Chinese partners, what was the conflict about?
3. In terms of Guanxi network, do you think its important factor to collaborate with Chinese partners during joint venture?
4. If Guanxi is so important, how does it work during JV period? (e.g., reduce uncertainty)
5. Does Guanxi involve in decision making process?
6. Despite of importance of Guanxi with Chinese partner, do you think that inter-organization networks with other corporations are helping your company to gain competitive advantage in China market?

VIII. Joint Ventures Problems and Development:

1. What obstacles hinder JV growth for your company (from Taiwanese business perspective) in China?
(**For example, financial constrain, political instability, complication of local restrictions or laws, lack of communication, cultural conflict, lack of infrastructure, others**).
2. Do you think that Chinese market has nontransparent market structure? (i.e. **no market research, quality of statistic is questionable**) and legal uncertainty (**basis on which a decision on which a decision has been made by an authority remains unclear or existing regulations are not effectively implemented nor executed or binding regulations are not applicable nationwide or regulations are changed at short notice**)
3. What obstacles do you foresee to the successful business in China in terms of JV?

(Such as: **government restrictions, poor economic conditions, poorly trained labour force, rise in production costs, bureaucratic system, corruption, and so on**).

4. What would your company need to overcome these obstacles?

APPENDIX B

Survey Information and Questions



Plymouth Business School
University of Plymouth
Drake Circus
Plymouth
Devon PL4 8AA
United Kingdom
Tele: 01752 232800
Fax: 01752 232853

Questionnaire Survey

The Characteristic and Performance of Taiwanese Joint Ventures in China

Dear Sir/ Madam:

The information collected by this survey will be used only for academic study in order to investigate the joint venture's characteristic and performance of Taiwanese businesses with Chinese partners in China region. This particular research is supported by many British and Taiwanese companies in order to find out the current situation of Sino-Taiwanese joint venture businesses.

This research is purely academic in nature, we would like to assure you that all the information have been provided will be kept extremely confidential and only used for an integrated statistical analysis. At the same time, I would be grateful if you can fill up the questionnaire below and return it (prepaid envelope has provided) as soon as possible.

Once again, we would like to thank you for your support and corporation toward this research.

Your Sincerely,

Plymouth University, Business School
Supervisors Professor David Head
Principal Lecturer Lynne Butel
PhD Student Chen-Yu, James, Liu
Contact Tel Taipei: +886 (02)2506-3128
U.K.: +44 (0)1752 232-850
Fax Taipei: +886 (02)2506-3130
U.K.: +44 (0)1626 775301
E-mail chen-yu.liu@plymouth.ac.uk

General Information:

Company Name: _____

Contact Person (position/ title): _____

Address: _____

Telephone: () _____ Fax: () _____

E-mail: _____

1. Approximately, has your company operated in China?

- ☐ Up to 1 years
- ☐ Up to 5 years
- ☐ Up to 10 years
- ☐ Over 10 years

2. How would you describe your business experience in China in recent years?

- ☐ Unsatisfactory
- ☐ Fair
- ☐ Good
- ☐ Excellent

3. What industrial sector does your company belongs? _____

- ☐ Electronic Industry ☐ Petrol & Chemical Industry ☐ Plastic Industry ☐ Textile Industry
- ☐ Food & Beverage Industry ☐ Wood Industry ☐ Agriculture & horticulture
- ☐ Information communication technology & high technology Industry
- ☐ Biotechnology, Pharmaceutical & Health Industry ☐ Service Industry
- ☐ Shipping & Transportation Industry ☐ Trade, investment & finance Industry ☐ Others, please specify

4. Have your companies been involved in any other international business prior to the investment in China?

- ☐ Yes
- ☐ No

If 'yes,' please describe. _____

5. Capital of this company (JV subsidiary) in China: (in million, NT dollar)

- ☐ Less than 50 ☐ 50~100 ☐ 100~200 ☐ More than 200

6. Number of employees of JV's company:

☐ Less than 10 ☐ 11~100 ☐ 101~500 ☐ 501~1000 ☐ More than 1001

7. Does your JV company belong to? ☐ State owned ☐ Private owned

Part A: Entry Strategy

1. What types of entry strategy that you have selected to enter into China?

☐ Foreign Direct Investment

☐ Export

☐ Licensing

☐ Joint Ventures (If you selected joint venture, please answer following questions)

▪ The level of your equity joint ventures with Chinese partner

☐ More than 50% shares

☐ 50% and 50% shares

☐ Less than 50% shares

▪ The duration of equity joint venture with Chinese partner(s):

☐ Up to 1 year

☐ Up to 5 years

☐ Up to 10 years

☐ More than 10 years

2. Identify the following main factors (from Taiwan's Investment Environment) for your company to invest in China (Please scale 10 through 1 as most significant ---not significant).

Objective	<most significant-----less significant>									
	10	9	8	7	6	5	4	3	2	1
Global Economic Downturn	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Difficult to Explore New Market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Decreasing of Exporting Orders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High Costs of Acquiring Raw Material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competitiveness in Taiwanese Market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High Labour & Capital Cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lacks of Support from Government & Local Authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lacks of Financial Support (e.g, Bank, Financial Company...)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High Costs of Human Resource	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other-please specify	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. If you have adopted the joint venture entry strategy and collaborated with local Chinese partners, how important are the following factors in your choice of these partners (resources reciprocal relationship)? (Please check the appropriate number)

Reasons	Not a reason	Unimportant reason	Minor reason	Important reason	Primary reason
To earn a profit in China	1	2	3	4	5
Long -Standing links with Chinese partners	1	2	3	4	5
Partner's market share	1	2	3	4	5
Partner's sales force	1	2	3	4	5
Partner's customer base	1	2	3	4	5
Partner's link with suppliers	1	2	3	4	5
Partner's established facilities	1	2	3	4	5
Partner's technological capabilities	1	2	3	4	5
Partner's ties with the government	1	2	3	4	5
Partner's ties with the local bank	1	2	3	4	5
Partner's access to raw materials	1	2	3	4	5
Partner's cheap labour resources	1	2	3	4	5
Other-please specify	1	2	3	4	5

4. Basis on the importance of trust in joint venture development, to what extent does the following statements reflect your company's commitment to the local operation in China? (Please check the appropriate number).

Statements	Does not reflect home company's view at all	Does not particularly reflect the home company's view	Partly reflects the home company's view	Largely reflects the home company's views	Completely reflects the home company's views
"We're willing to send managers to the local operation on a long term basis"	1	2	3	4	5
"We're willing to send engineers to the local operation on a long term basis"	1	2	3	4	5
"We're happy to provide training for local workers in the host country"	1	2	3	4	5
"We're willing to transfer technology to the local operation"	1	2	3	4	5
"We're willing to establish local design and R&D facilities"	1	2	3	4	5
"Financial assistance is readily available for viable project"	1	2	3	4	5
"We've plans to extend the scale of local operation"	1	2	3	4	5
"We're willing to yield full managerial responsibility to local operation"	1	2	3	4	5
Other- please specify	1	2	3	4	5

Part B: JV Motivations & Decision Making:

1. Which of the following reasons apply to your company current interest to invest in China? **(Please check the appropriate number).**

Reasons	Not a reason	Unimportant reason	Minor reason	Important reason	Primary reason
Size and potential of market (to overcome the restrictions of domestic distribution)	1	2	3	4	5
Low investment costs (land prices, taxes, duties, labour...)	1	2	3	4	5
Labour skill & availability	1	2	3	4	5
Availability of raw or scarce materials	1	2	3	4	5
Financial supports from home country	1	2	3	4	5
Good infrastructure (road, railway, telecommunication, sea port...)	1	2	3	4	5
Special environment conditions (e.g, special economic zones: Beijing, Shanghai, and Tianjing)	1	2	3	4	5
Other-please specify	1	2	3	4	5

2. In Sino-Taiwanese JV formation, please identify which companies have made the important decision making in the following aspects stated below ? **(Please check the boxes which applies).**

	Taiwanese parent company	Chinese parent company	Sino-Taiwanese JV
Investments			
Capital budget			
Sales target			
Pricing policy			
Product quality control			
Management system			
Product research & development			
Manufacture process			
Other-please specify			

Chinese Government in Sino-Taiwanese JV Business:

1. Since Chinese government plays has significant influence in Foreign Direct Investment, which of Chinese government's policies or regulations that would have affected on your decision-making to invest in China? **(Please check the appropriate number).**

Reasons	Not a reason	Unimportant reason	Minor Reason	Important reason	Primary reason
Non-transparent market structure (e.g. no market research)	1	2	3	4	5
Unsatisfactory opportunities to know about official regulation (e.g. regulations are not accessible at a central place or in English)	1	2	3	4	5
No satisfactory legal regulations in important of our business activities	1	2	3	4	5
Existing regulations are not effectively implemented nor executed	1	2	3	4	5
Binding regulations are not applicable nationwide	1	2	3	4	5
Regulations are changed at short notice, the period of transition is not acceptable	1	2	3	4	5
Still people rule for society					
Other-please specify	1	2	3	4	5

Part C: Sino-Taiwanese JV Performance (base on financial & non-financial perspective)

1 Please indicate the JV performance of your company which form a joint venture with Chinese local partners in terms of the following criteria (latest financial year) **(Please check the appropriate number).**

Criteria	Very Poor	Poor	Average	Good	Excellent	Does not apply
Gross profit margins	1	2	3	4	5	Na
Return on total assets	1	2	3	4	5	Na
Return on equity	1	2	3	4	5	Na
Sales turnover	1	2	3	4	5	Na
Rate of growth of sales	1	2	3	4	5	Na
Market share	1	2	3	4	5	Na
Brand name recognition	1	2	3	4	5	Na
Shareholder value	1	2	3	4	5	Na
Export targets	1	2	3	4	5	Na
Labour productivity	1	2	3	4	5	Na
Other (please specify)	1	2	3	4	5	Na

2 Please indicate the performance of your companies whether they have achieved the following criteria (non-financial perspective) (Please check the appropriate number).

Criteria	Very Poor	Poor	Average	Good	Excellent	Does not apply
Quality of interpartner' working relationships (e.g, managers, employees).	1	2	3	4	5	Na
Product quality control	1	2	3	4	5	Na
Products research & development	1	2	3	4	5	Na
Achieved the jointed goals/objectives	1	2	3	4	5	Na
Marketing capabilities	1	2	3	4	5	Na
Competition within the industry	1	2	3	4	5	Na
Expanding business scale	1	2	3	4	5	Na
Customer service	1	2	3	4	5	Na
Other (please specify)	1	2	3	4	5	Na

Par D: Importance of cultural issue in Sino-Taiwanese JV:

1. How important were the following factors that would influence your firms doing business in China from culture aspect? (Please check the appropriate number).

Cultural similarity issue	Not a reason	Unimportant reason	Minor reason	Important reason	Primary reason
Share same language and ethnic cognition	1	2	3	4	5
Easy to build up the interpersonal relationship (Guanxi)	1	2	3	4	5
Similar communication styles	1	2	3	4	5
Familiar with Chinese hierarchic decision making process	1	2	3	4	5
Acquainted with Chinese criteria for employee evaluation & work assessment	1	2	3	4	5
Easy to reach consensus	1	2	3	4	5
Similar of percept ional issue	1	2	3	4	5
Other-please specify	1	2	3	4	5

2. Which culture obstacle would affect your Sino-Taiwanese JV business ? (Please rate between 1 with not a reason and 5 with primary reason)

Cultural differences in management	Not a reason	Unimportant reason	Minor reason	Important reason	Primary reason
Different views of profitability (short vs. long-term)	1	2	3	4	5
Different concept of management styles & systems, such as: autonomy	1	2	3	4	5
Bargaining power when negotiate					
Manager's working relationship	1	2	3	4	5
Different attitudes towards conflicts	1	2	3	4	5
Other-please specify	1	2	3	4	5

Comments:

If you have any additional questions and comments concerning to your business operation in China, please make them in the space provided below.

Thanks again for your support and corporation, if you would like a copy of the abstract of this report, please tick the box below.

☐ I want a copy

☐ I do not want a copy

APPENDIX C

Summary of Interview Results

Table 7.1 Detail of Interview Results

	Entry Mode	Proportion of shares	Industry	JV Partner's Selection	Motivations towards China	Satisfactory of Sino-Taiwanese JV	Non-transparent market	JV duration (year)	Long-term plan	Market Research before Entering China
STJV 1	Both jv & wholly owned	50% vs. 50%	Construction & Real Estate	Director's business guanxi networks	Potential market, large profit, low cost	Satisfied	No opinion	10	to enhance core competencies	Yes
STJV 2	Both jv & wholly owned	Greater than 50%	Timber and pulp & paper	Top manager's guanxi networks	Large profit & stable market demand	Not satisfied	Yes	15	to integrate local operation	Yes
STJV 3	Joint venture	50% vs. 50%	Hydraulics Construction Engineering	General Manager's guanxi networks	Market opportunity & large profit	Neutral	No opinion	5	to explore Chinese market	Yes
STJV 4	Both jv & wholly owned	Greater than 50%	Marketing & Finance service	Subsidiary's guanxi networks	Potential market & global strategy	Satisfied	Yes	5	to sustain the low cost manufacturing strategy	Yes
STJV 5	Joint venture	Greater than 50%	Bathroom equipments	General manager's guanxi networks	Low set up costs & potential market	Satisfied	Yes	5	to become dominant player in its business sector	Yes
STJV 6	Joint venture	Greater than 50%	Bathroom equipments	General manager's guanxi networks	Potential market, low labour cost	Satisfied	Yes	5	to operate business individually	Yes

STJV 7	Joint venture	50% vs. 50%	Retailing	Subsidiary's guanxi networks	Potential market	Not satisfied	Improving	5	to develop customer service sector	Yes
STJV 8	Joint venture	50% vs. 50%	Employee consultancy	General manager's guanxi networks	First mover advantage & large market	Satisfied	Improving	5	to explore Chinese market	Yes
STJV 9	Both jv & wholly owned	Less than 50%	Petrol related products	President's personal & business guanxi networks	Potential market & low overall costs	Satisfied	Yes	10	to sustain the low cost manufacturing strategy	Yes
STJV 10	Both jv & wholly owned	Greater than 50%	Hotel Management	General manager's guanxi networks	Potential market, low labour cost	Neutral	Yes	10	to become dominant player in its business sector	Yes
STJV 11	Joint venture	Greater than 50%	Food & beverage	General manager's guanxi networks	High consumer purchasing power	Satisfied	Yes	3	to operate business individually	Yes
STJV 12	Joint venture	Greater than 50%	Petrol related products	Business guanxi networks	Low overall costs	Satisfied	Yes	15	to sustain the low cost manufacturing strategy	Yes
STJV 13	Joint venture	Less than 50%	Ink materials manufacturer	General manager's guanxi networks	Potential market	Not satisfied	Improving	10	to sustain the low cost manufacturing strategy	Yes

STJV 14	Joint venture	Greater than 50%	Telecommunication & accessories	Partner's capabilities	Market opportunity & low labour cost	Satisfied	Yes	3	to become dominant player in its business sector	Yes
STJV 15	Joint venture	Greater than 50%	Plastic & related products	Business guanxi networks	Potential market but competitive	Satisfied	Improving	15	to sustain the large operations	Yes
STJV 16	Joint venture	Greater than 50%	cable & wire	General manager's guanxi networks	Potential market, large profit, low cost	Not satisfied	Yes	X	to explore Chinese market	Yes
STJV 17	Joint venture	Greater than 50%	Sports & camping equipments	General manager's guanxi networks	Low overall costs	Very satisfied	Improving	15	to sustain the low cost manufacturing strategy	Yes
STJV 18	Joint venture	Greater than 50%	Car & accessories	General manager's guanxi networks	Market opportunity	Satisfied	Improving	10	to operate business individually	Yes
STJV 19	Joint venture	Greater than 50%	Pharmaceutical	Director's personal & business guanxi networks	Potential market & purchasing power	Satisfied	Yes	10	to become dominant player in its business sector	Yes
STJV 20	Joint venture	50% vs. 50%	Electricity	Director's personal & business guanxi networks	Potential market	Satisfied	Yes	28	to sustain the low cost manufacturing strategy	Yes

	Main JV Conflict	Main Management Conflict	Taiwanese Partner Contributions	Chinese Partner Contribution	Main Obstacles	Culture issue	Communication	Negotiation Process	Whether guanxi involves in decision making process
STJV 1	Management	Different management styles	new construction skills & advanced management	government license & construction materials	Chinese central government policies	Important	Open	Spend more time than they expected	No
STJV 2	Culture	Reward systems	know-how skills & advanced technology	distribution channels & permit for using natural resources	Lack of support from Taiwanese government	Important	Open	Much longer than they expected	No
STJV 3	Management	Budget allocations	innovation idea & advanced technology	existed market shares	Untrustworthy relationship	Important	Open	Spend more time than they expected	No
STJV 4	Operation	Different working attitudes	effective management system and people	established distribution channels	Unfairness of Chinese market	Important	Open	Spend more time than they expected	No
STJV 5	Management	Different views of profitability	significant amount of investments & marketing & distribution resources	existence of technology, facilities and equipments	Hostile political relations between Taiwan and China	Important	Open	Spend more time than they expected	No

STJV 6	Untrustworthy relationship	Different marketing strategy	advanced technological skills of manufacturing its product	established distribution channels	Copy technique from Chinese partner	Important	Open	Spend more time than they expected	No
STJV 7	Management	Different management styles and concepts	effective management system and people	special business guidance	Complex JV management system	Important	Open, but limited in top managers	Spend more time than they expected	Yes
STJV 8	Profitability	Different management styles	investment	investment	Needs more guanxi networks	Important	Open	Normal time	No
STJV 9	Product Intellectual right	Na	know-how of chemical mixing technology & certain amount of capital investment	Capital investment & existing facilities	Untrustworthy relationship	Important	Open	Spend more time than they expected	Yes
STJV 10	Business attitudes	Different management styles and concepts	Capital investment & management techniques & service training	local knowledge & marketing	Strong competitors	Important	Limited	Spend more time than they expected	Yes
STJV 11	Human resource management	Different management control	Capital investment & operational strategy	local market knowledge & facilities	Partners opportunistic behaviour	Important	Open	Spend more time than they expected	No

STJV 12	Na	Different operation concept	innovation idea & advanced technology & strong brand name & experience	local market knowledge & relationship with government agencies & skillful labour	Hostile political relations between Taiwan and China,	Important	Open	Spend more time than they expected	No
STJV 13	Management	Different operation system and institution	technology of know-how & raw materials	distribution sales channels & well trained labour & physical facilities	Human resource management	Important	Open	Spend more time than they expected	No
STJV 14	Decision making	Different management styles	Innovative product & strong research and development skills	low cost of labour	Competitive market	Important	Open	Spend more time than they expected	Yes
STJV 15	Culture	Different management styles	large amount of capital investment	facilities, labour, equipments and problem solving skills	Complex decision making process	Important	Open, but limited in top managers	Spend more time than they expected	No
STJV 16	Management	Different management control	Innovative product & strong research and development skills	strong local market knowledge & providing special guanxi	Chinese central government policies, hostile political relations between Taiwan and China	Important	Open	Spend more time than they expected	Yes

STJV 17	Management	Different management control	capital investments & efficient management skills	local knowledge & important guanxi networks	Hostile political relations between Taiwan and China	Important	Open	Spend more time than they expected	Minor
STJV 18	Management	Different operation concept	expatriate managers, technicians & engineers	market shares & local market knowledge	Disclosure of confidential information	Important	Open	Spend more time than they expected	Yes
STJV 19	Operation	Different culture background	advanced technological skills & strong R & D expertise	strong sales channels	Existing Chinese medicine regulations and laws	Important	Open	Spend more time than they expected	Minor
STJV 20	Management and operation	Different operation concept	effective management system and people	government license & permits	Chinese central government policies	Important	Open, but limited in top managers	Much longer than they expected	No

	Year of operation in China	Place of interview	Influences on JV's performance	Date of interview	Gender	Length of time of interview	Location of office	Interviewee
STJV 1	1988	Office	Macro-economic control policy	May 23rd, 2005	Male	90 minutes	Taiwan, Taipei	President assistance
STJV 2	1995	Home	Taiwan's govt policy towards China	Aug 8th, 2004	Male	120 minutes	Taiwan, Taipei	Procurement manager
STJV 3	1985	Office	Not trustworthy relationship	July 26th, 2004	Male	60 minutes	China, Beijing	General manager
STJV 4	2001	Restaurant	Instable govt policy	May 12th, 2005	Female	60 minutes	China, Shanghai	Expatriate manager
STJV 5	1995	Restaurant	Political risks between cross-Straits	August 2nd, 2004	Male	60 minutes	China, Shanghai	General manager
STJV 6	1995	Office	Lacks of intellectual property right	Aug 1st, 2004	Male	60 minutes	China, Beijing	vice general manager
STJV 7	2002	Home	Complex management & market	May 13th, 2005	Male	60 minutes	China, Beijing	Deputy director

STJV 8	1996	Restaurant	Competitive market	May 11th, 2005	Female	120 minutes	China, Shanghai	General manager
STJV 9	2001	Office	Not trustworthy relationship	May 20th, 2005	Female	60 minutes	China, Shanghai	Vice President
STJV 10	1990	Office	Competitive market	May 10th, 2005	Male	90 minutes	Taiwan, Kaoshung	Deputy general manager
STJV 11	1995	Restaurant	Competitive market	May 12th, 2005	Female	60 minutes	China, Nantong	General manager
STJV 12	1999	Office	Political risks between cross-Straits	May 10th, 2005	Male	60 minutes	China, Shanghai	Deputy manager
STJV 13	1988	Office	High employee turn over rate	May 18th, 2005	Male	60 minutes	China, Nantong	General manager
STJV 14	1993	Office	Competitive market & political risks	July 31st, 2004	Male	90 minutes	Taiwan, Taichung	General manager
STJV 15	1999	Restaurant	Complex management & market	May 12th, 2005	Male	60 minutes	China, Beijing	Deputy manager

STJV 16	1996	Restaurant	Lacks of intellectual property right	Aug 3rd, 2004	Male	60 minutes	China, Beijing	General manager
STJV 17	1999	Office	Political risks between cross-Straits	April 23rd, 2005	Male	60 minutes	Taiwan, Taipei	General manager
STJV 18	1995	Office	Employees' loyalty & imitation ability	May 10th, 2005	Male	45 minutes	China, Nantong	General manager
STJV 19	1993	Office	Lacks of intellectual property right	May 24th, 2005	Male	60 minutes	Taiwan, Taipei	Deputy manager
STJV 20	1995	Restaurant	Competitive market	May 10th, 2005	Male	60 minutes	China, Nantong	General manager

APPENDIX D

Summary of Factor Analysis

Descriptive Statistics of Sino-Taiwanese Joint Ventures

	Mean	Std. Deviation	Analysis N
size & potential market	4.1250	.90735	88
lower capital investment cost	3.3636	1.06330	88
cheap labour cost & availability	3.4432	1.16321	88
resource availability with low costs	2.8864	1.18837	88
reuse the Taiwanese old machinery equipment	3.1591	1.32080	88
robust infrastructure	2.3523	1.01754	88
special environment factor	2.8409	1.14356	88
financial support from Taiwan	3.0568	1.51891	88
global economic downturn	2.1818	.98897	88
difficult for business to survive in domestic market	3.7273	1.33673	88
small size of domestic market	3.6705	1.31937	88
strict environmental law	3.2841	1.42190	88
decreasing of exporting orders	2.2841	1.15419	88
high cost of acquiring raw material in Taiwan	3.3182	1.41051	88
competitiveness in Taiwanese market	3.6023	1.29135	88
appreciation of Taiwanese currency	2.8409	1.30328	88
high labour cost	4.0227	1.10357	88
lacks of support from government and local authority	3.0909	1.23769	88
lack of Taiwanese government financial support	2.8409	1.32947	88
high cost of human resource management	3.9886	1.09853	88
to lower overhead investment	2.8636	.97299	88
to access Chinese market	3.4659	1.12392	88
to find a distribution channels or routes	3.1705	1.14693	88
to achieve economic scale	3.0455	1.03845	88
to link with suppliers	2.8409	.99292	88
to use partner's established facility	2.6250	.97453	88
to use partner's technology capabilities	2.0000	.89699	88
to overcome local law and regulations	2.8182	.95346	88
to lower the political risk	3.0341	.91537	88
to get the local financial institutions support	2.6705	.95558	88
to access raw materials	2.6477	1.16500	88
to recruit skilled labour	3.0795	1.09567	88
willing to send managers to the local operation on a long term basis	3.7386	.79502	88
willing to send engineers to the local operation on a long term basis	3.5114	.89692	88
willing to provide training for local workers	3.6591	.88261	88

willing to transfer technology to the local operation	3.2500	1.09597	88
willing to establish local design and R&D facilities	3.1818	1.15017	88
financial assistance is readily available for viable project	3.0909	.93016	88
plan to extend the scale of local operation	3.5682	.99187	88
willing to transfer management responsibility to local partners	2.8295	.94955	88
unavailability of market information	3.0795	1.07449	88
unsatisfactory about formal regulation promulgation	3.2045	.91173	88
unsatisfactory of special regulations have limited Taiwanese business development	3.1250	.98041	88
existing regulations are not effectively implemented nor executed	3.4205	.90619	88
compulsory regulations are not applicable nationwide	3.4205	.89342	88
constant changing regulations and institutions	3.6705	.90619	88
seeking appropriate Chinese venture partner via guanxi	2.9773	1.08254	88
Advantages of culture similarities and share same language	3.6705	.81257	88
Easy to build up trust relationship	2.8636	.88645	88
Easy to build up interpersonal relationship	3.1250	.86851	88
Similar communication styles	3.0795	.87391	88
More welcome by the Chinese firms	3.3636	.87338	88
Guanxi becomes an important factor for Taiwan firm	3.0682	.79936	88
understand China partner's thought and ethnic cognition	2.8864	.87667	88
understand Chinese employee's achievements	2.8409	.86949	88
different view of profitability	3.2841	.97023	88
not trustworthy relationship even share same culture	3.3523	.97131	88
cultural difference existed in managerial system	3.1136	.87667	88
different ethical attitude to achieve venture goals	3.1705	.89983	88
need more time on negotiation towards strategic operation	3.3977	.87808	88
cultural difference effect staff's relationship	3.1591	.84263	88
preferential treatments from central & local government	3.5795	.84038	88
financial assistance from local government	2.7841	.87689	88
investment can be freely	3.1023	.93514	88

exchanged into other currency			
cooperate with local government to reduce risks	2.9659	.90273	88
actively promote Chinese investment environment to Taiwanese entrepreneurs	3.3409	.88261	88
inefficiency of bureaucratic system	3.4091	.87935	88
serious corruption among central and local governments	3.2841	.94624	88

Table 7.14: Factor Analysis

Items	Factor Loadings																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Deterioration of Taiwanese Economic Environment																	
difficult for business to survive in domestic market	0.8434																
reuse the Taiwanese old machinery equipment	0.8108																
strict environmental law	0.7663																
lack of Taiwanese government financial support	0.7431																
small size of domestic market	0.6941																
financial support from Taiwan	0.6811																
high cost of acquiring raw material in Taiwan	0.6621																
lacks of support from government and local authority	0.6059																
competitiveness in Taiwanese market	0.5389									-0.4324							
high cost of human resource management	0.4981											0.6540					
high labour cost	0.5639											0.6254					
appreciation of Taiwanese currency	0.4256											0.4700					
decreasing of exporting orders																	0.7342

The Cultural Influence Motive																	
different ethical attitude to achieve venture goals		0.8264															
cultural difference existed in managerial system		0.8051															
not trustworthy relationship even share same culture		0.7862															
need more time on negotiation towards strategic operation		0.7848															
cultural difference effect staff's relationship		0.7584															
different view of profitability		0.6803															
Culture Similarities																	
Easy to build up trust relationship			0.8160														
understand Chinese employee's achievements			0.7336														
understand China partner's thought and ethnic cognition			0.7076														
Similar communication styles			0.6813														
Guanxi becomes an important factor for Taiwan firm			0.6808														
More welcome by the Chinese firms			0.6667														
Easy to build up interpersonal relationship			0.6401														
Advantages of culture similarities and share same language			0.5721														

Partner's Capabilities																	
to lower the political risk				0.7988													
to get the local financial institutions support				0.7536													
to lower overhead investment				0.6598													
to overcome local law and regulations				0.6317													
to recruit skilled labour				0.5933										0.4265			
seeking appropriate Chinese venture partner via guanxi				0.5733													
to access raw materials				0.5375													
to use partner's technology capabilities				0.4463												0.4235	
to find a distribution channels or routes										0.6891							
to link with suppliers										0.6770							
to achieve economic scale				0.4346						0.5389							
to use partner's established facility																0.5781	
to access Chinese market				0.4027												-0.4489	
Attractiveness of Chinese Market																	
lower capital investment cost					0.7572												
cheap labour cost & availability					0.7385												
robust infrastructure					0.7305												
resource availability with low costs					0.7129												
global economic downturn					0.5925												
size & potential market														0.6705			
special environment factor														0.4686			0.5490

Institutional Instability unsatisfactory of special regulations have limited Taiwanese business development preferential treatments from central & local government unsatisfactory about formal regulation promulgation unavailability of market information compulsory regulations are not applicable nationwide existing regulations are not effectively implemented nor executed constant changing regulations and institutions						0.7799										
						0.7747										
						0.7442										
						0.6301										
							0.8328									
							0.7910									
							0.7497									
Political Environment investment can be freely exchanged into other currency serious corruption among central and local governments inefficiency of bureaucratic system financial assistance from local government cooperate with local government to reduce risks actively promote Chinese investment environment to Taiwanese entrepreneurs financial assistance is readily available for viable project		0.4291						0.7486								
								0.7014								
								0.5928								
								0.5063			0.4155					
												0.7246				
												0.5638				
												0.4785				

Commitments																	
willing to send managers to the local operation on a long term basis								0.7753									
willing to send engineers to the local operation on a long term basis								0.7513									
willing to establish local design and R&D facilities																	
willing to transfer management responsibility to local partners										0.6745							
plan to extend the scale of local operation										0.6094							
willing to transfer technology to the local operation										0.5860							
willing to provide training for local workers													0.7114				
Eigenvalues	6.3990	5.3160	5.2620	4.6650	3.6560	3.3880	2.9350	2.6540	2.5360	2.4490	2.2180	1.9780	1.9610	1.7160	1.7110	1.5930	1.4810
% of variance explained	9.41	7.818	7.738	6.86	5.376	4.982	4.316	3.904	3.729	3.601	3.262	2.909	2.884	2.523	2.516	2.343	2.178
Cumulative % of variance	9.41	17.227	24.965	31.825	37.202	42.184	46.5	50.404	54.132	57.733	60.995	63.904	66.788	69.311	71.827	74.17	76.349

Table 7.15 Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	12.039	17.705	17.705	12.039	17.705	17.705	6.399	9.410	9.410
2	6.432	9.459	27.164	6.432	9.459	27.164	5.316	7.818	17.227
3	4.977	7.318	34.483	4.977	7.318	34.483	5.262	7.738	24.965
4	4.227	6.217	40.699	4.227	6.217	40.699	4.665	6.860	31.825
5	3.511	5.163	45.863	3.511	5.163	45.863	3.656	5.376	37.202
6	3.284	4.830	50.692	3.284	4.830	50.692	3.388	4.982	42.184
7	2.193	3.225	53.917	2.193	3.225	53.917	2.935	4.316	46.500
8	1.986	2.921	56.838	1.986	2.921	56.838	2.654	3.904	50.404
9	1.933	2.842	59.681	1.933	2.842	59.681	2.536	3.729	54.132
10	1.874	2.756	62.436	1.874	2.756	62.436	2.449	3.601	57.733
11	1.542	2.268	64.704	1.542	2.268	64.704	2.218	3.262	60.995
12	1.520	2.235	66.939	1.520	2.235	66.939	1.978	2.909	63.904
13	1.492	2.195	69.134	1.492	2.195	69.134	1.961	2.884	66.788
14	1.380	2.030	71.164	1.380	2.030	71.164	1.716	2.523	69.311
15	1.232	1.812	72.976	1.232	1.812	72.976	1.711	2.516	71.827
16	1.213	1.783	74.759	1.213	1.783	74.759	1.593	2.343	74.170
17	1.081	1.590	76.349	1.081	1.590	76.349	1.481	2.178	76.349
18	.995	1.463	77.812						
19	.980	1.441	79.253						
20	.906	1.333	80.586						
21	.871	1.280	81.866						
22	.862	1.267	83.134						
23	.801	1.178	84.311						
24	.694	1.020	85.331						
25	.683	1.004	86.336						
26	.642	.944	87.280						
27	.607	.893	88.172						
28	.554	.815	88.988						
29	.515	.757	89.745						
30	.493	.725	90.470						

31	.470	.692	91.162						
32	.457	.672	91.833						
33	.438	.644	92.477						
34	.408	.600	93.078						
35	.381	.561	93.639						
36	.348	.511	94.150						
37	.330	.485	94.635						
38	.312	.459	95.094						
39	.287	.422	95.516						
40	.266	.391	95.907						
41	.259	.381	96.287						
42	.230	.338	96.625						
43	.225	.331	96.956						
44	.213	.314	97.270						
45	.194	.285	97.555						
46	.174	.256	97.811						
47	.164	.242	98.053						
48	.153	.225	98.278						
49	.140	.206	98.484						
50	.115	.169	98.653						
51	.109	.160	98.813						
52	.104	.153	98.967						
53	.099	.146	99.113						
54	.083	.122	99.235						
55	.081	.119	99.354						
56	.070	.104	99.457						
57	.067	.099	99.556						
58	.059	.087	99.643						
59	.050	.073	99.717						
60	.047	.069	99.786						

61	.040	.059	99.844						
62	.027	.040	99.884						
63	.026	.038	99.922						
64	.017	.025	99.947						
65	.015	.022	99.969						
66	.011	.015	99.984						
67	.007	.011	99.995						
68	.003	.005	100.000						

Extraction Method: Principal Component Analysis.

Table 7.16 Communalities

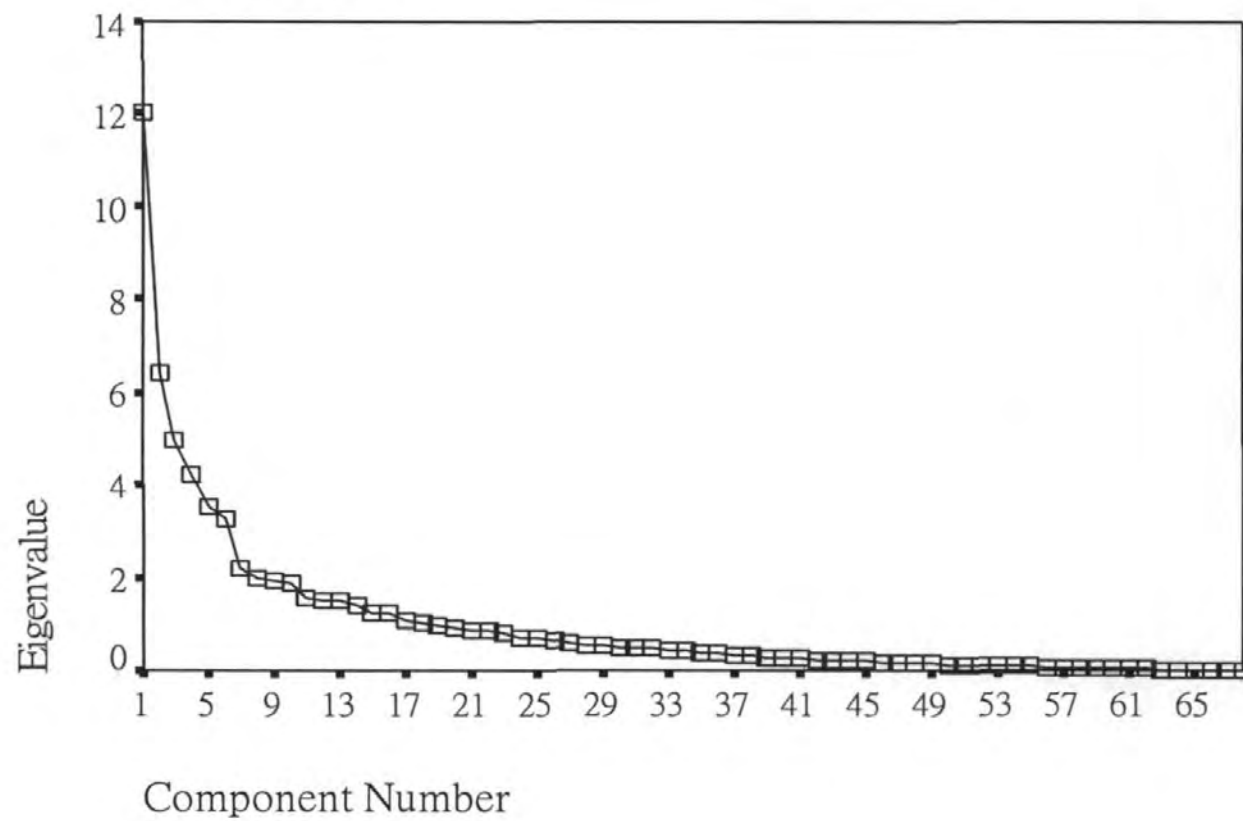
	Initial	Extraction
size & potential market	1.000	.658
lower capital investment cost	1.000	.791
cheap labour cost & availability	1.000	.762
resource availability with low costs	1.000	.719
reuse the Taiwanese old machinery equipment	1.000	.782
robust infrastructure	1.000	.714
special environment factor	1.000	.730
financial support from Taiwan	1.000	.658
global economic downturn	1.000	.831
difficult for business to survive in domestic market	1.000	.821
small size of domestic market	1.000	.725
strict environmental law	1.000	.801
decreasing of exporting orders	1.000	.738
high cost of acquiring raw material in Taiwan	1.000	.650
competitiveness in Taiwanese market	1.000	.694
appreciation of Taiwanese currency	1.000	.704
high labour cost	1.000	.817
lacks of support from government and local authority	1.000	.687
lack of Taiwanese government financial support	1.000	.873
high cost of human resource management	1.000	.802
to lower overhead investment	1.000	.715
to access Chinese market	1.000	.795
to find a distribution channels or routes	1.000	.822
to achieve economic scale	1.000	.661
to link with suppliers	1.000	.770
to use partner's established facility	1.000	.765
to use partner's technology capabilities	1.000	.736
to overcome local law and regulations	1.000	.700
to lower the political risk	1.000	.807
to get the local financial institutions support	1.000	.767
to access raw materials	1.000	.721
to recruit skilled labour	1.000	.803
willing to send managers to the local operation on a long term basis	1.000	.748
willing to send engineers to the local operation on a long term basis	1.000	.814

willing to provide training for local workers	1.000	.790
willing to transfer technology to the local operation	1.000	.755
willing to establish local design and R&D facilities	1.000	.731
financial assistance is readily available for viable project	1.000	.765
plan to extend the scale of local operation	1.000	.719
willing to transfer management responsibility to local partners	1.000	.599
unavailability of market information	1.000	.723
unsatisfactory about formal regulation promulgation	1.000	.806
unsatisfactory of special regulations have limited Taiwanese business development	1.000	.828
existing regulations are not effectively implemented nor executed	1.000	.866
compulsory regulations are not applicable nationwide	1.000	.839
constant changing regulations and institutions	1.000	.812
seeking appropriate Chinese venture partner via guanxi	1.000	.760
Advantages of culture similarities and share same language	1.000	.772
Easy to build up trust relationship	1.000	.836
Easy to build up interpersonal relationship	1.000	.774
Similar communication styles	1.000	.669
More welcome by the Chinese firms	1.000	.790
Guanxi becomes an important factor for Taiwan firm	1.000	.826
understand China partner's thought and ethnic cognition	1.000	.758
understand Chinese employee's achievements	1.000	.754
different view of profitability	1.000	.750
not trustworthy relationship	1.000	.779
even share same culture		
cultural difference existed in managerial system	1.000	.799
different ethical attitude to achieve venture goals	1.000	.875
need more time on negotiation		
towards strategic operation	1.000	.754
cultural difference effect staff's relationship	1.000	.722
preferential treatments from central & local government	1.000	.732

financial assistance from local government	1.000	.838
investment can be freely exchanged into other currency	1.000	.754
cooperate with local government to reduce risks	1.000	.771
actively promote Chinese investment environment to Taiwanese entrepreneurs	1.000	.784
inefficiency of bureaucratic system	1.000	.779
serious corruption among central and local governments	1.000	.828

Extraction Method: Principal Component Analysis.

Scree Plot

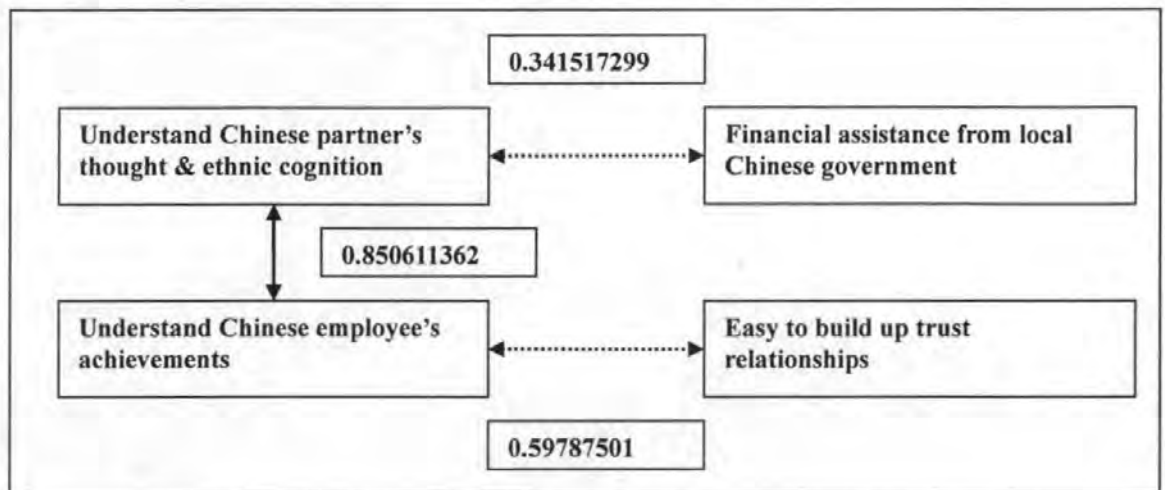


APPENDIX E

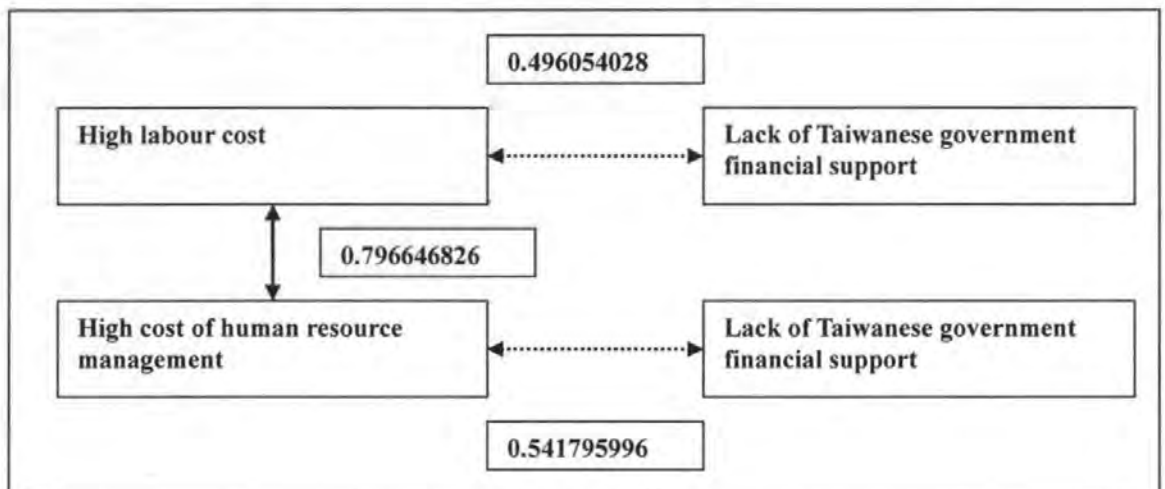
McQuitty Correlation Linkage Analysis

Table 7.17 McQuitty Simple Correlation Linkage Analysis

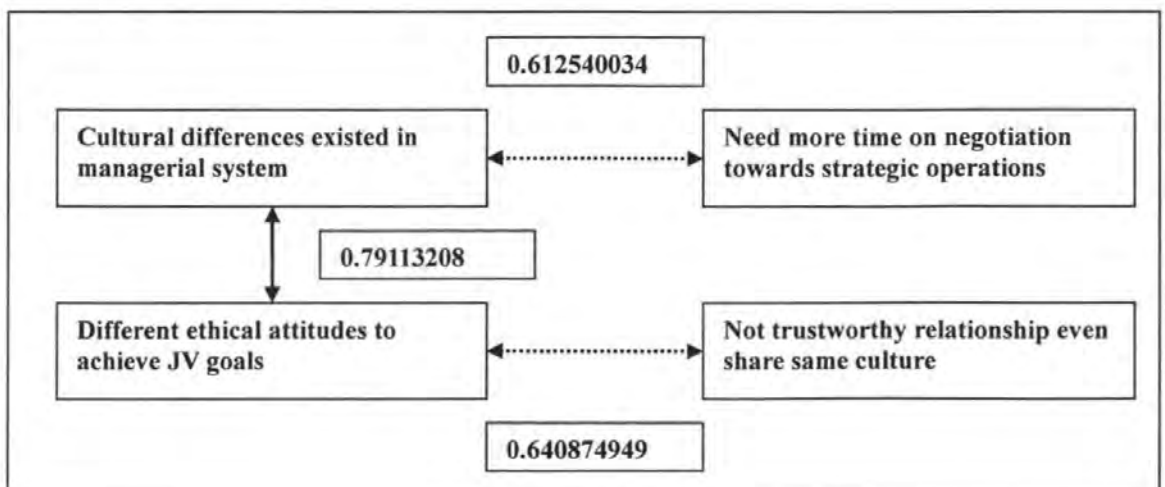
The 1st Important JV Factor



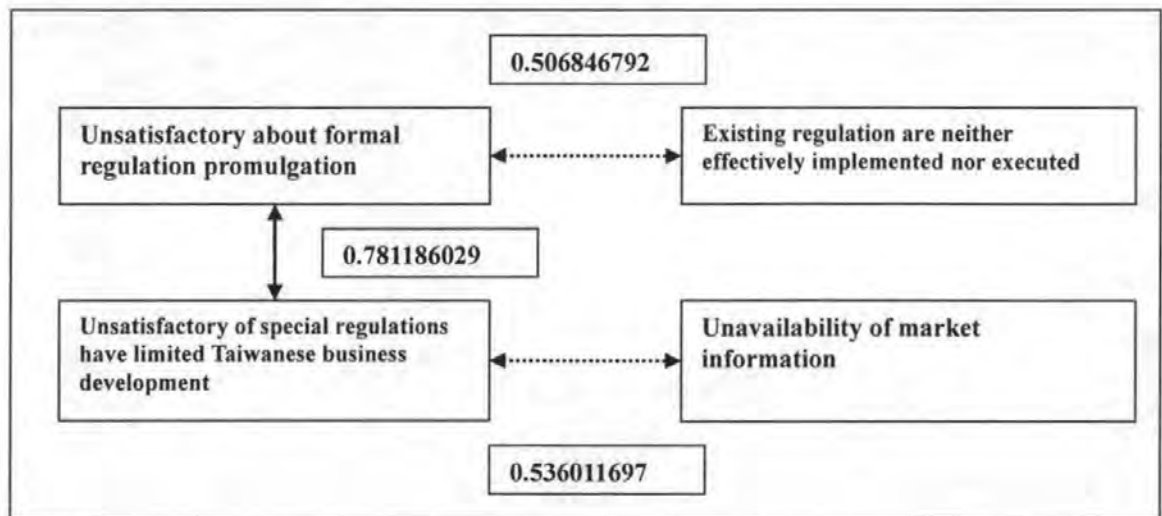
The 2nd Important JV Factor



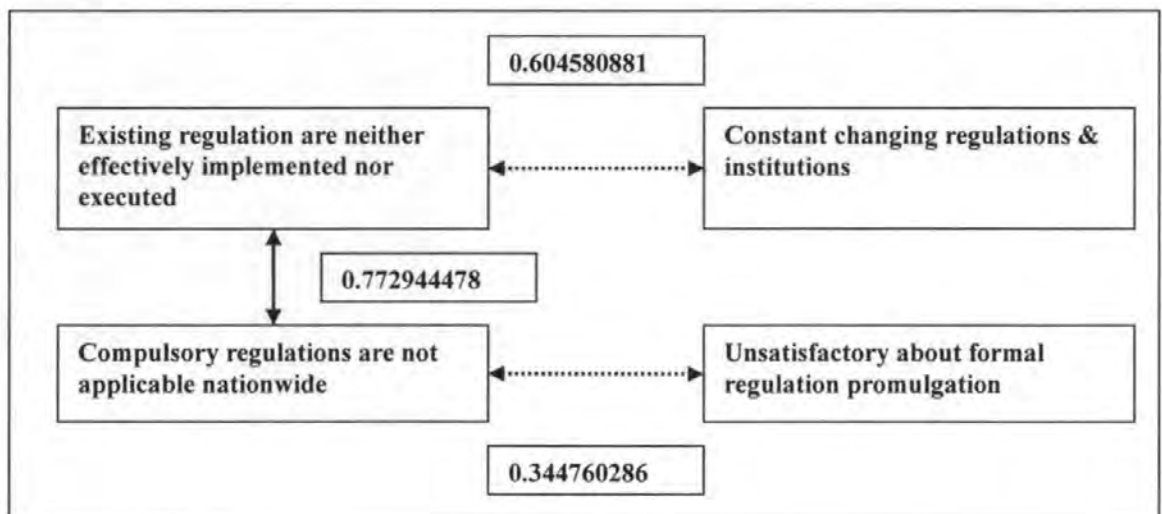
The 3rd Important JV Factor



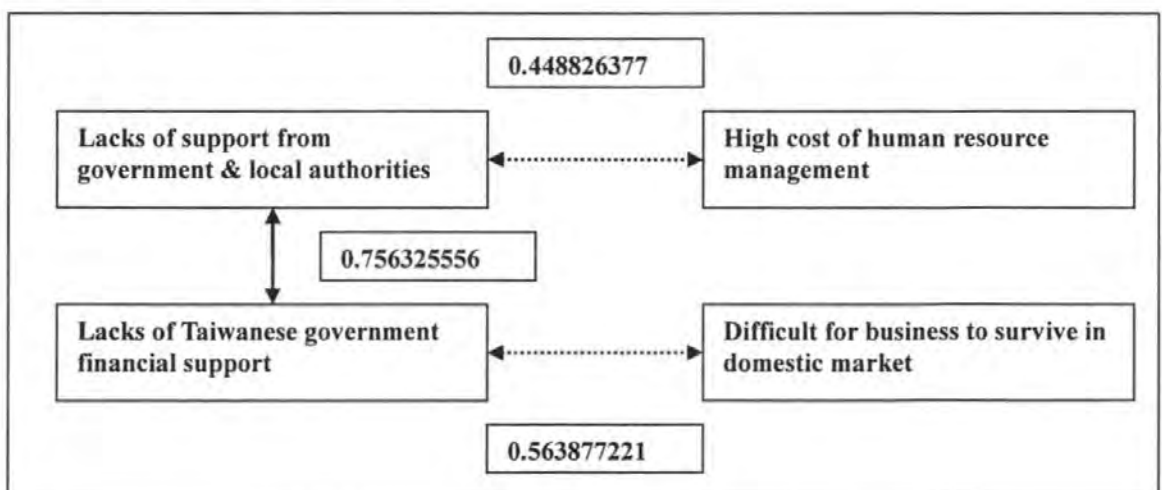
The 4th Important JV Factor



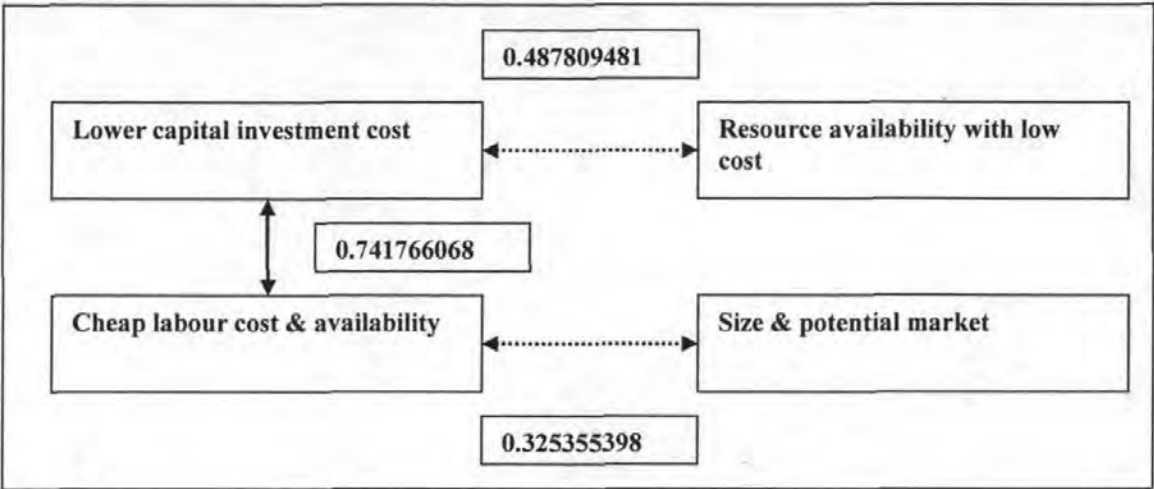
The 5th Important JV Factor



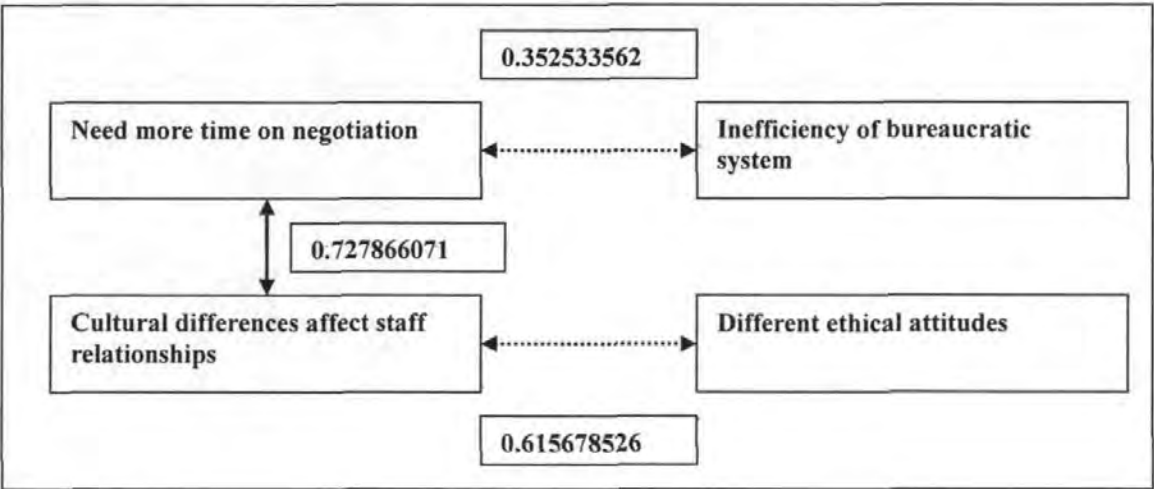
The 6th Important JV Factor



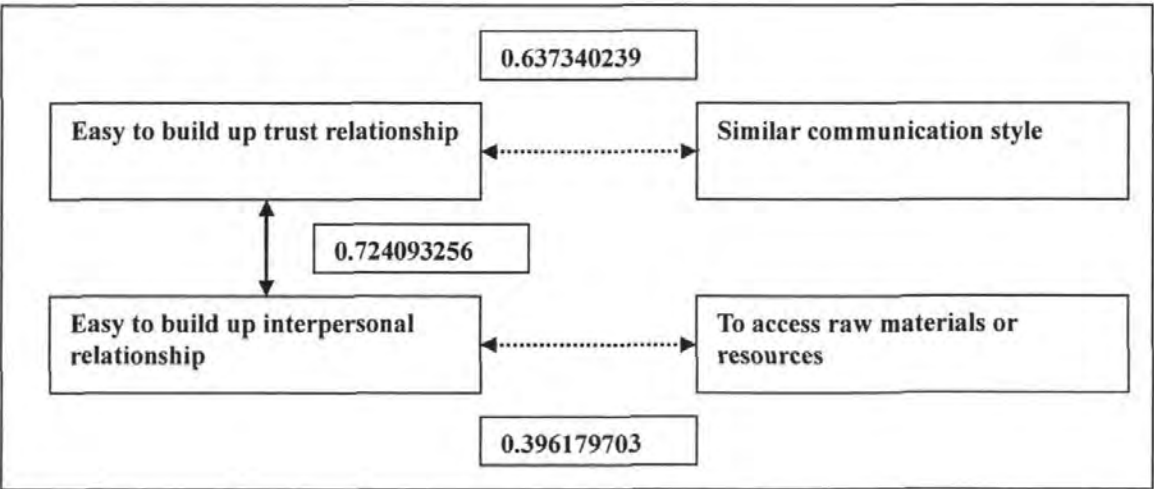
The 7th Important JV Factor



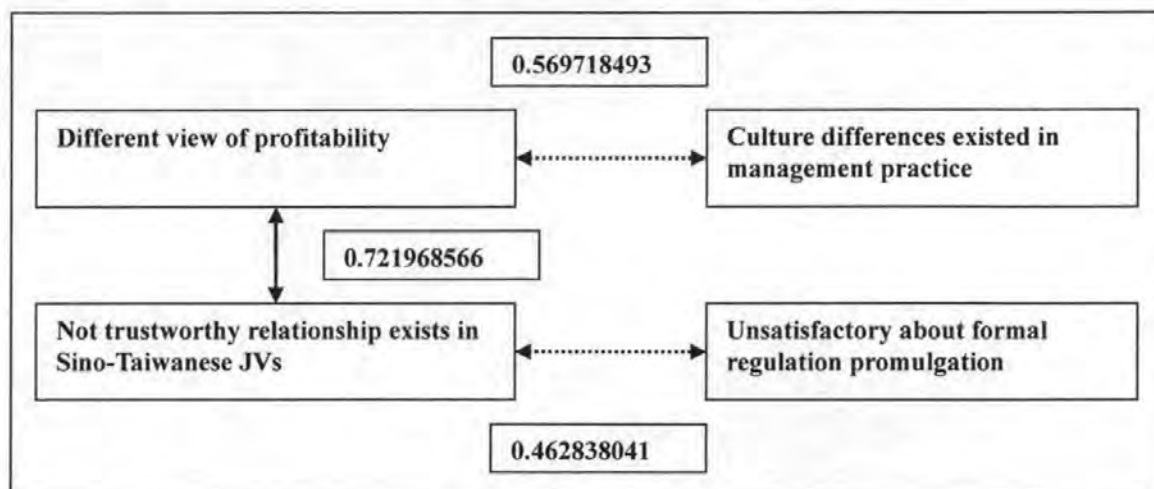
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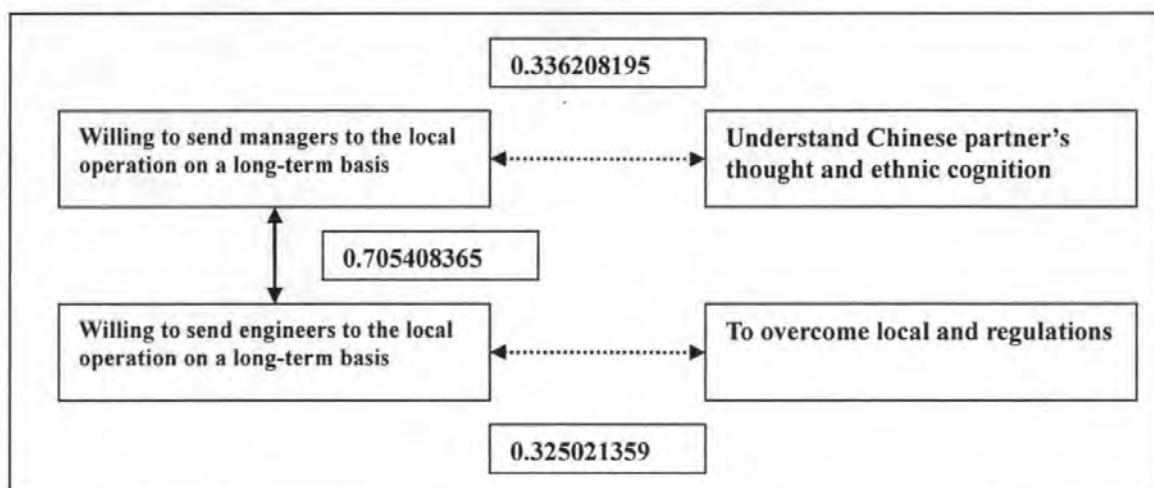
The 9th Important JV Factor



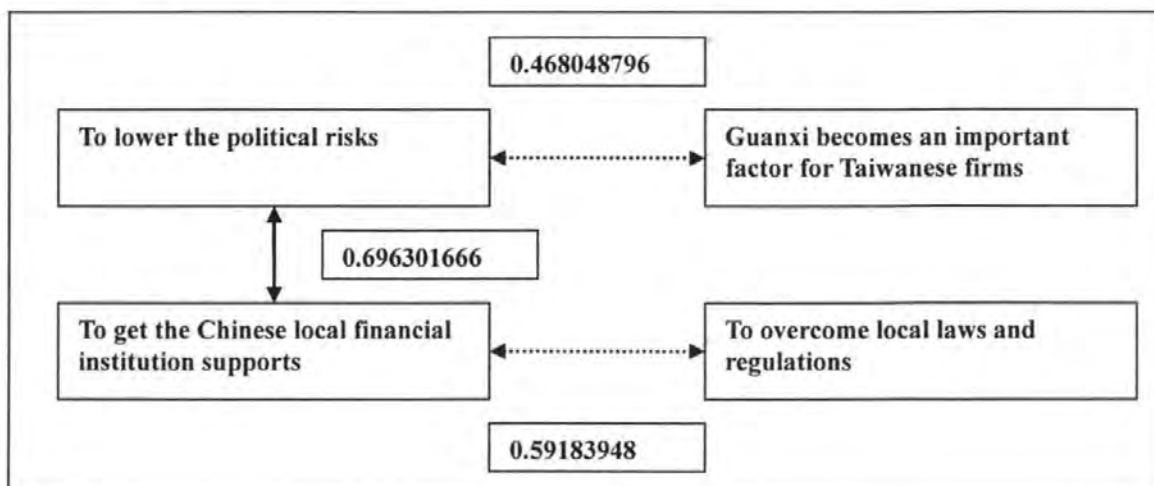
The 10th Important JV Factor



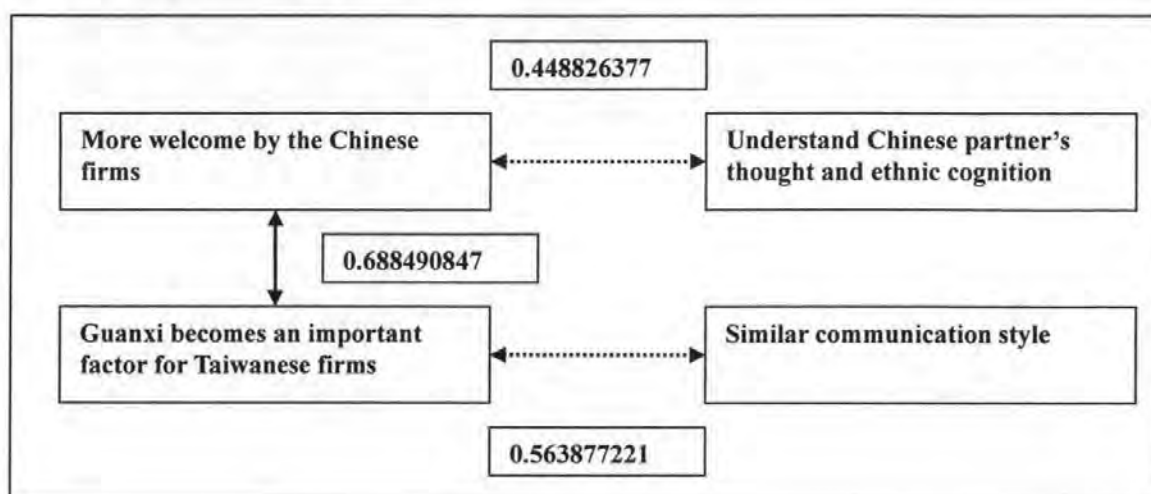
The 11th Important JV Factor



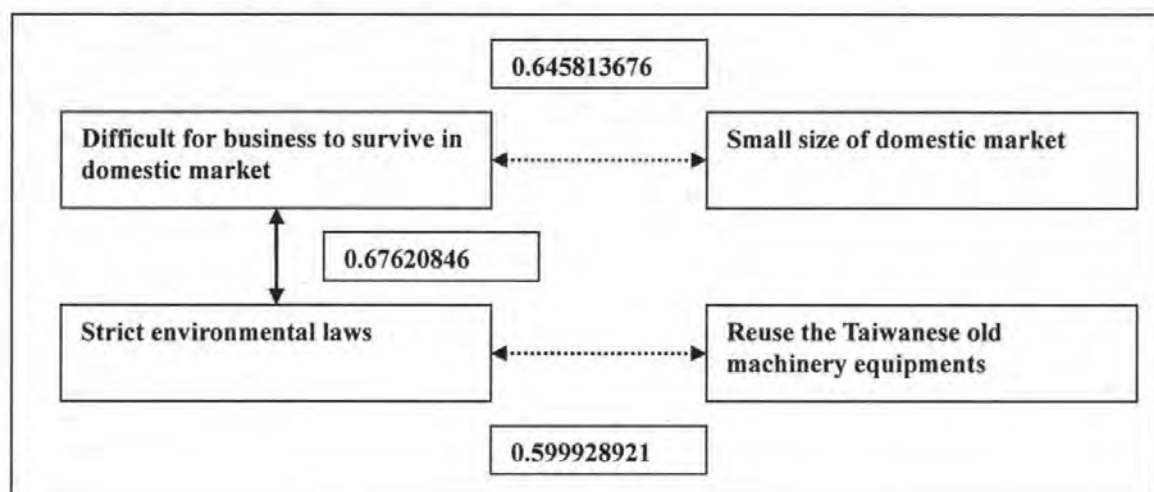
The 12th Important JV Factor



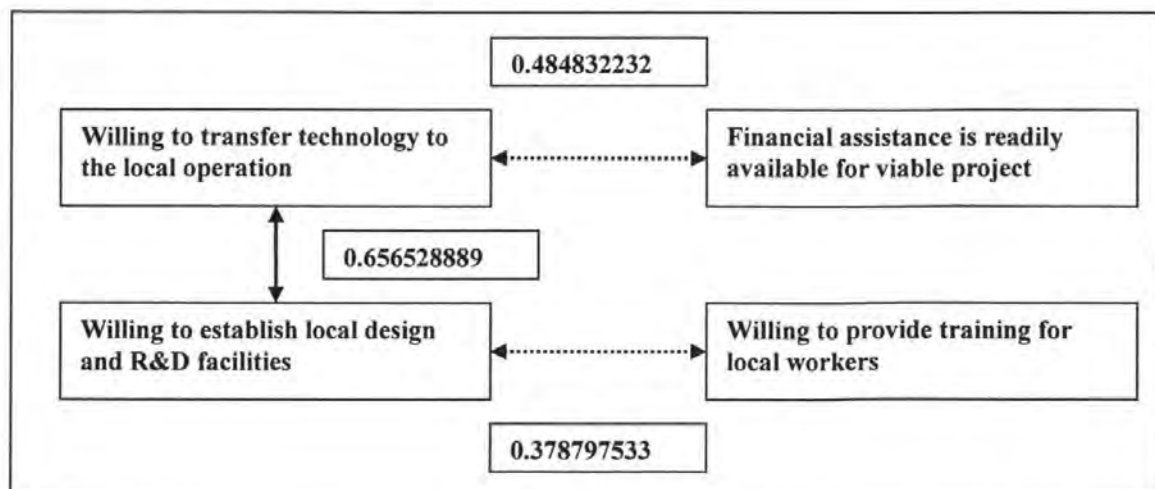
The 13th Important JV Factor



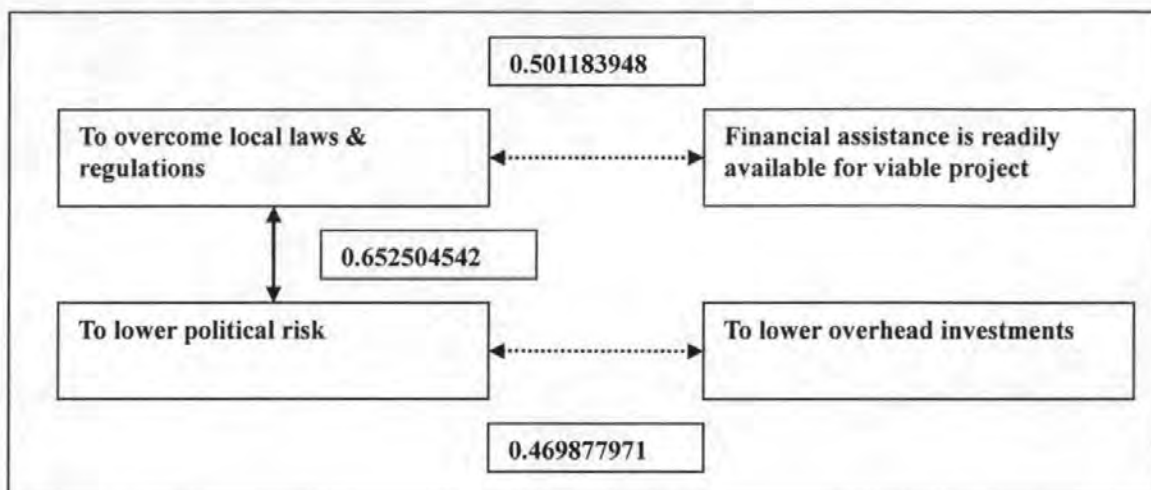
The 14th Important JV Factor



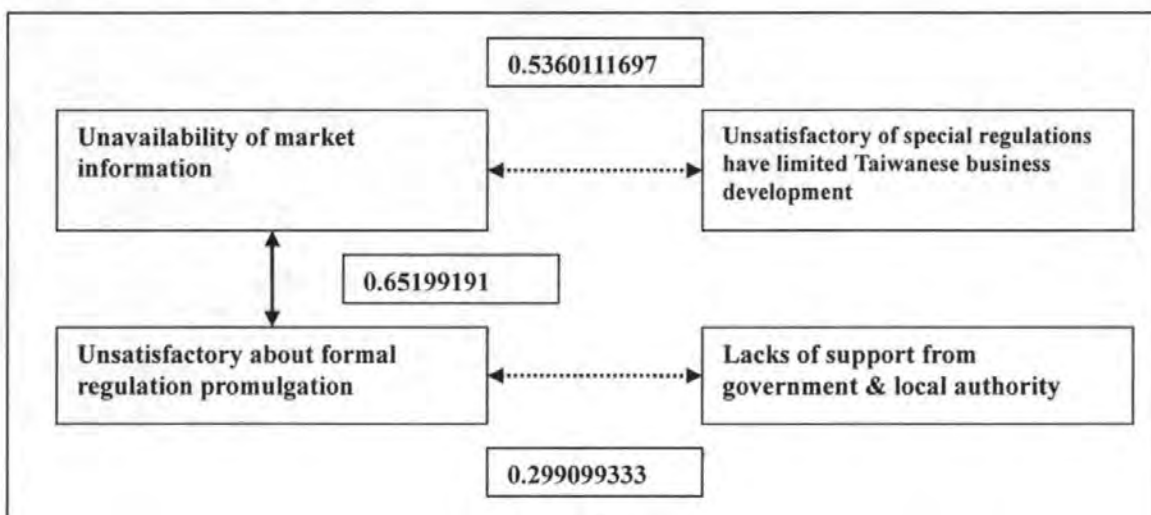
The 15th Important JV Factor



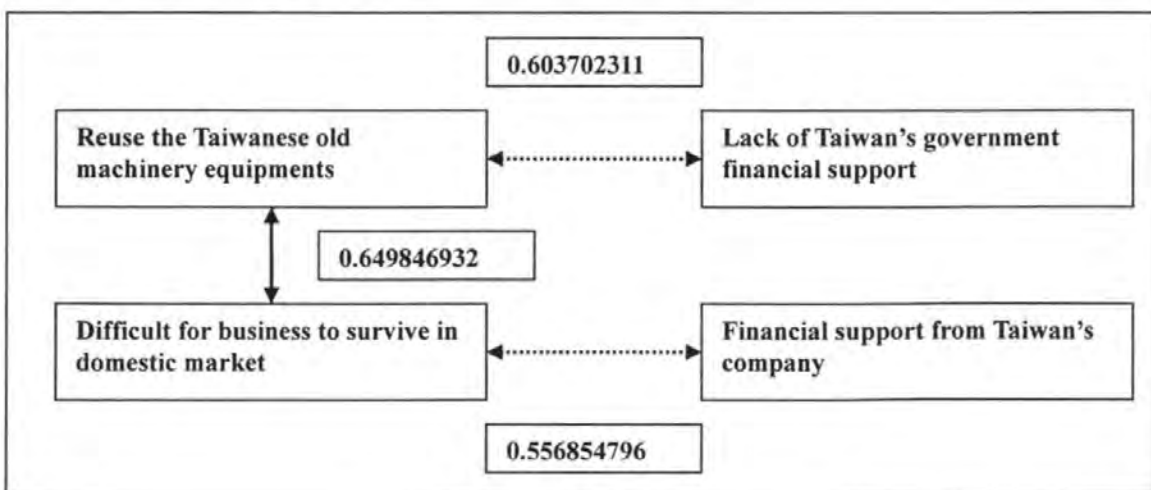
The 16th Important JV Factor



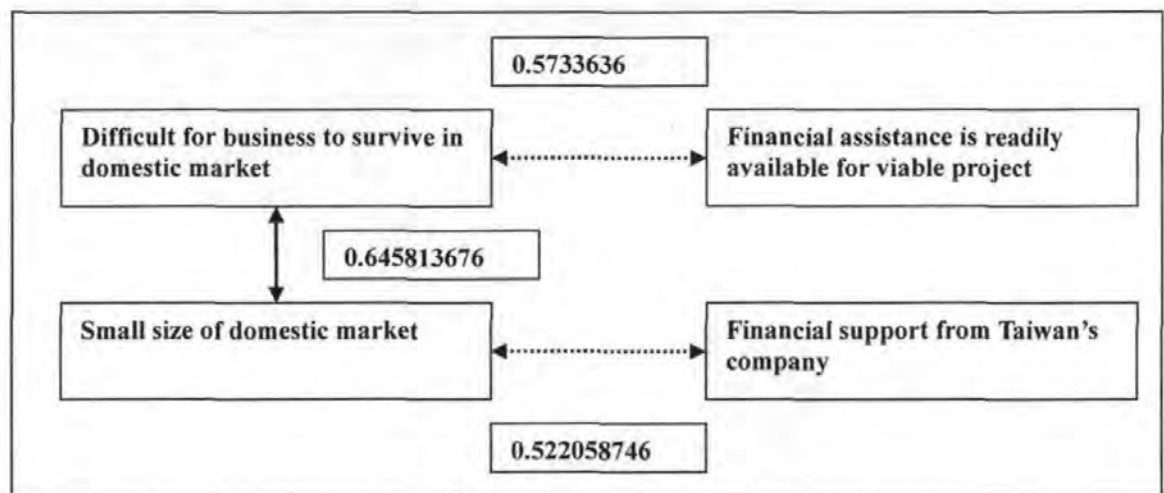
The 17th Important JV Factor



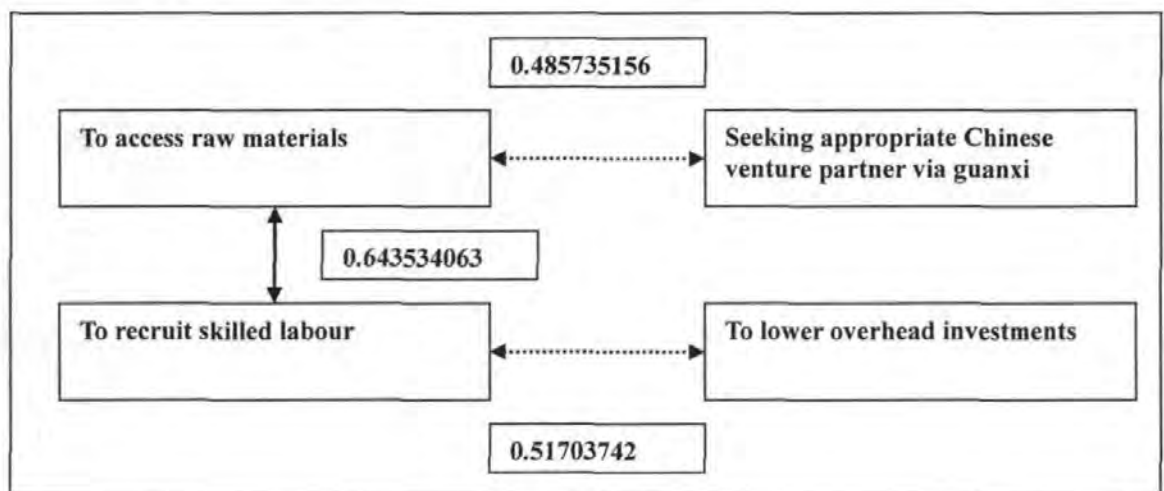
The 18th Important JV Factor



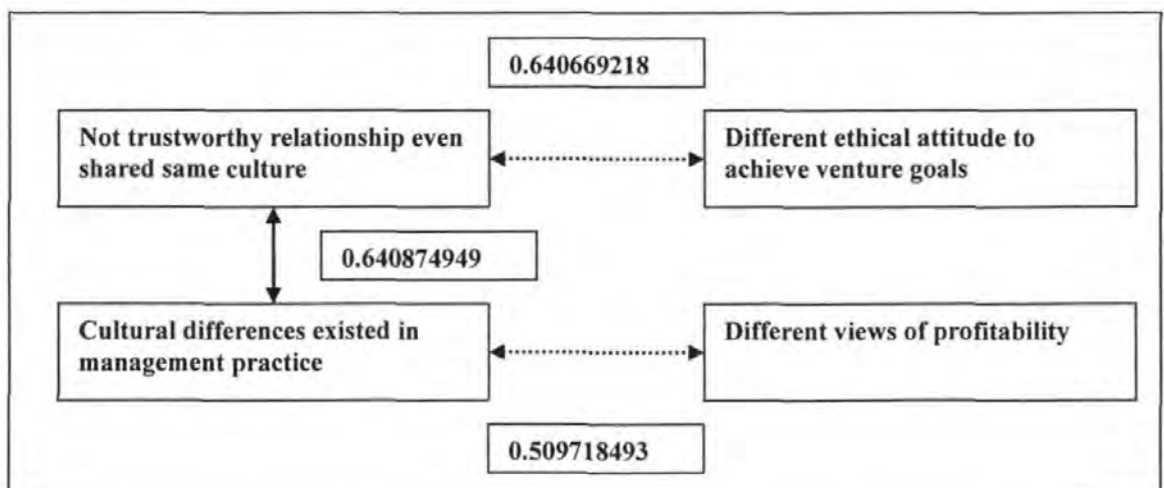
The 19th Important JV Factor



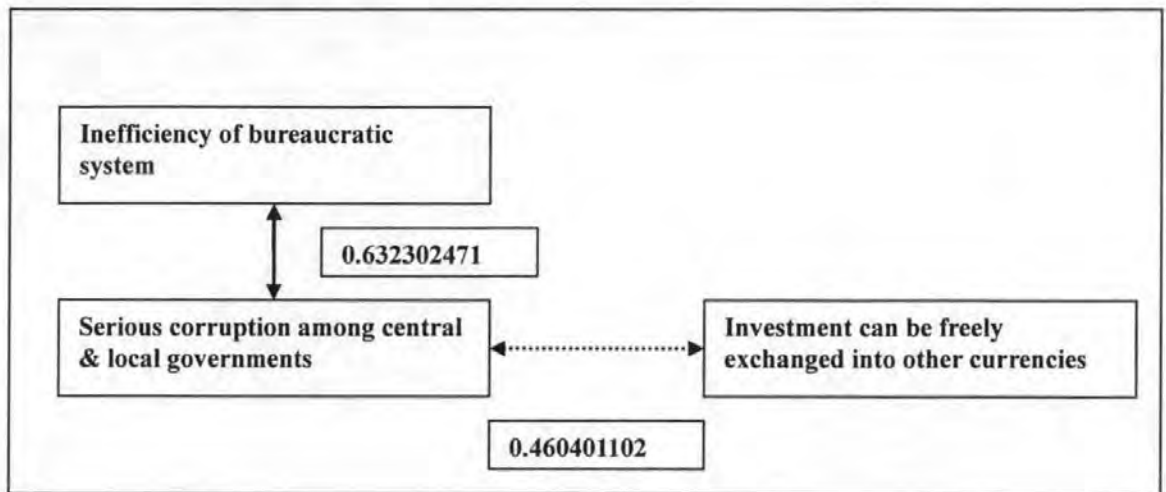
The 20th Important JV Factor



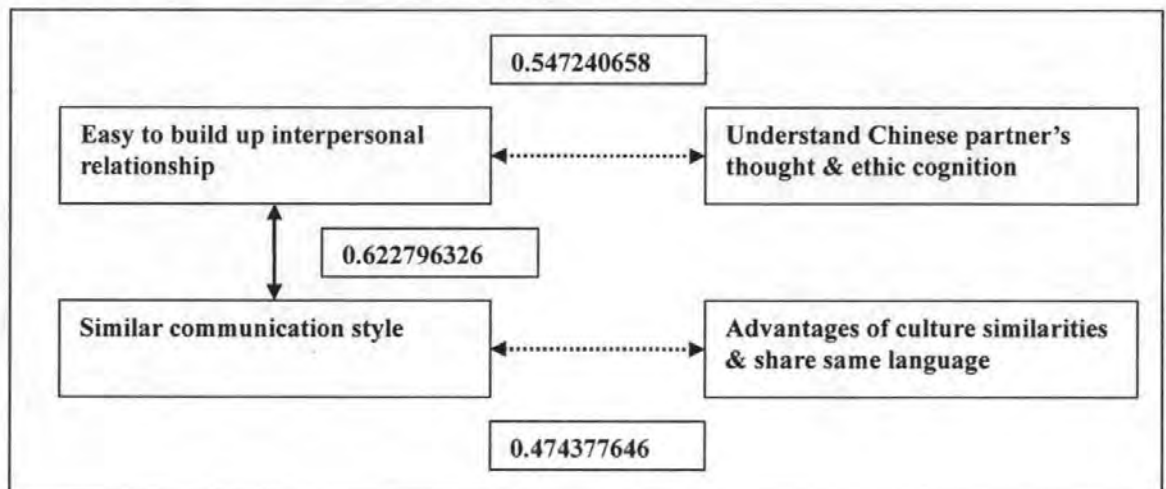
The 21st Important JV Factor



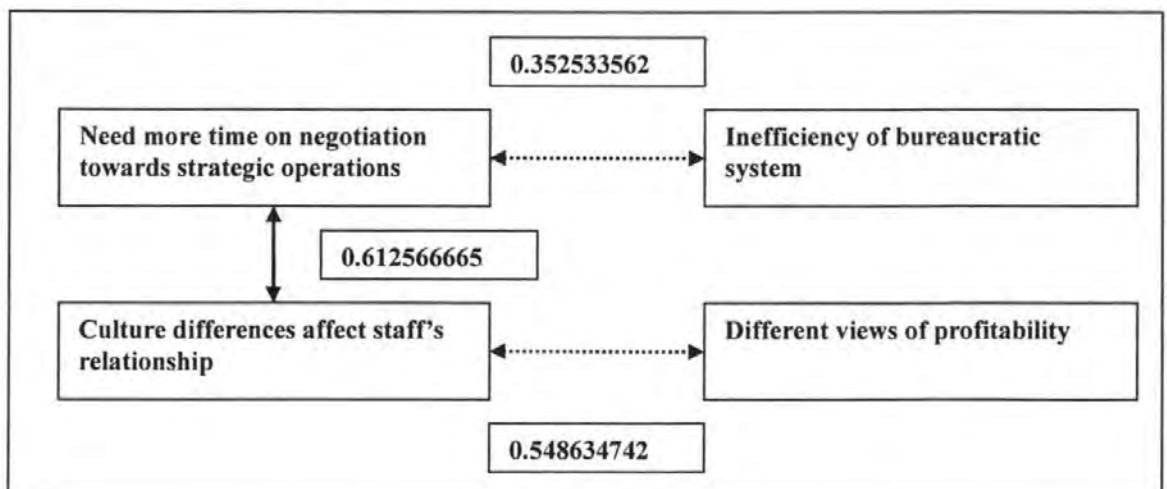
The 22nd Important JV Factor



The 23rd Important JV Factor



The 24th Important JV Factor



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