



## RESEARCH NOTE

# Host-country policies and MNE management control in IJVs: Evidence from China

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### Abstract

In international joint ventures (IJVs), partner firms exert three types of management control: output, process, and social. Since management control critically influences IJV success, it is essential to understand what factors drive the development of the control system. Prior studies have focused mainly on IJVs' internal conditions, and have largely neglected external institutional influences on IJV control. In this study we explore how host-country policies affect MNE partners' control over their IJVs. Using a sample of IJVs in China, we find that MNE partners tend to exercise less output and process control when minority equity restriction is present, greater process control when they receive government incentives, and less social control when they are required to partner with state-owned enterprises. In contrast, the results of a *post hoc* analysis show that local partners' control activities are not significantly influenced by these policies. Our findings provide new insights into IJV management by demonstrating the impacts of regulatory institutions on partners' control activities. *Journal of International Business Studies* (2010) 41, 526–537.

doi:10.1057/jibs.2009.97

**Keywords:** alliances and joint ventures; organizational control and design; institutional context; China; survey method

## INTRODUCTION

Management control is a critical issue for multinational enterprises (MNEs) that operate international joint ventures (IJVs) in international markets (Geringer & Hebert, 1989; Groot & Merchant, 2000). Prior IJV literature has focused mainly on the performance consequences of control (e.g., Beamish, 1993; Choi & Beamish, 2004; Killing, 1983). Nonetheless, to effectively influence IJV behavior and performance, MNEs need to understand how the control system is developed (Cardinal, Sitkin, & Long, 2004). Several studies have identified internal factors that drive the development of control (e.g., Chen, Park, & Newbury, 2009; Yan & Gray, 2001), but few have addressed external institutional influences on IJV control.

This study intends to examine how host-country policies are related to MNEs' management control over IJVs. While host-country policies towards IJVs have often been linked to entry decisions (e.g., Das, 1998; Delios & Henisz, 2000; Gomes-Casseres, 1990), it is largely unknown how they affect MNE behavior after venture formation. Applying a bargaining power approach, we investigate how MNEs adjust their control activities in response to restrictive or conducive host-country policies. Our theory is tested

Received: 1 December 2007

Revised: 4 November 2009

Accepted: 6 November 2009

Online publication date: 24 December 2009

using a sample of IJVs in China. The country presents an appropriate research setting, as about half of its FDI inflow has taken the form of IJV, and its continuous transitions have created diverse policies towards IJVs (Quer, Claver, & Rienda, 2007).

### THEORY AND HYPOTHESES

Management control in IJVs refers to the influences exerted by partners over joint venture operations (Geringer & Hebert, 1989). Control use is not singular in modern organizations. Following organizational control theory (Kirsch, 1996; Ouchi, 1979; Turner & Makhija, 2006), we identify three types of control activities: output control, process control, and social control. Output control is concerned with the outcome of joint venturing. It is exercised through specifying outcome objectives, measuring consequent achievements, and giving rewards/penalties accordingly. Process control regulates IJV operational activities directly. Parent firms exercise process control by implementing rigorous approval processes, pre-specified procedures, and continuous monitoring. Social control is utilized to influence the embedded values and cultures of IJVs. Parent firms exercise social control through social interactions outside the hierarchical command system, such as training, collaboration, and socialization.

These three types of control coexist in the IJV control system, and can be variously exercised to manage different aspects of IJVs. Working towards the common purpose of influencing IJV behavior and performance, the three control types may complement one another. Nonetheless, they are separate constructs, utilize different mechanisms, and have different performance implications (Das & Teng, 2001; Fryxell, Dooley, & Vryza, 2002). To achieve their multifaceted venturing objectives, parent firms typically use a combination of these three control types.

In order to configure different types of control, parent firms require adequate knowledge of the antecedents of control. Compared with the control–performance relationship, research on the antecedents of control is rather limited. Existent studies are focused primarily on transaction cost concerns and parent resource contributions. According to transaction cost theory, control can be regarded as a means of protecting specific assets and reducing uncertainty in IJVs (Speklé, 2001). Martinez and Ricks (1989) found that partners exert greater control over IJVs that are relatively

more important. Luo, Shenkar, and Nyaw (2001) suggested that partners should exercise strong control when there is high uncertainty resulting from goal incongruence and cultural distance. While the transaction cost perspective explains why partners should control, it does not consider whether they are capable of exercising control or not (Kamminga & Van der Meer-Kooistra, 2007). From a social exchange perspective, the bargaining power model suggests that control in IJVs is determined by partners' resource contribution. A company gains bargaining power and control when its partner depends on its contribution of critical resources (Steensma & Lyles, 2000). The more strategic resources that a partner contributes, the greater control the partner will have (Mjoen & Tallman, 1997; Yan & Gray, 2001). Furthermore, Chen et al. (2009) argued that not only the relative importance but also the characteristics of resources affect IJV control. From a resource-based view, they found that property-based and knowledge-based resources are variously linked to different types of control activities. These prior studies focus on IJVs' internal conditions, but largely neglect external restrictions on control. While transaction cost concerns increase the need for control, and partners' resource contributions empower them to exercise control, the actual control activities are also subject to the influences of external institutions.

Building on Chen et al. (2009), we further extend the bargaining power model to incorporate host-country policies as key determinants of MNE control activities. Institutional research indicates that government policies are key regulatory institutions at the country level (Kostova, 1997; Scott, 1995). These policies set the "rules of the game" for firms, and drive firm strategy and behavior (North, 1990; Peng, Wang, & Jiang, 2008). Specifically, host-country policies are regarded as a key factor in the internationalization of MNEs. Previous studies have found that these policies influence MNEs' entry mode and ownership structure (Delios & Beamish, 1999; Delios & Henisz, 2000; Gomes-Casseres, 1990; Meschi, 2009), location choice (Moon & Lado, 2000), and partner choice (Roy & Oliver, 2009). These studies focus mainly on the interactions between MNEs and host countries before entry. Except for a few studies on IJV contract renegotiation and instability (Blodgett, 1992; Sinha, 2001), there is limited evidence about how host-country policies influence MNEs' post-entry behavior. Given the importance of

management control to IJV success (Steensma & Lyles, 2000), it is critical to examine how MNE control activities are influenced by host-country policies.

Various forms of host-country policies have been used to influence MNEs. They vary by industry and location, and differ in implementation and execution within a country (Meyer & Nguyen, 2005). These policies are directed mainly at influencing the ownership or the performance of MNE subsidiaries (Safarian, 1993). Ownership restriction is the most common regulation over foreign investments (Contractor, 1990; Delios & Beamish, 1999; Luo, 2002). To enforce performance requirements, incentives are widely used, especially in developing countries (Moon & Lado, 2000; te Velde, 2002). While ownership restriction limits MNEs' presence and influence, incentives guide them to follow the directions desired by host countries. These two types of policies are targeted at MNEs as sticks and carrots. In addition to implementing policies, host-country governments may directly claim the residual rights of control through state ownership (Lee, Oh, & Eden, 2009). Governments of developing countries often require MNEs to partner with state-owned enterprises (SOEs) (OECD, 2003).

### Ownership Restriction

When ownership restriction exists, the equity shares of MNE partners in IJVs are limited. This policy not only regulates IJV equity structure at formation but also constrains MNEs' strategic options later. Once the IJV is in place, governments' continuous monitoring of MNE activities may make it cumbersome to alter joint venture terms (Blodgett, 1992). When MNEs cannot easily change equity structures, their latitude to utilize bargaining power is limited. Local partners' presence is secured largely by governments, and MNEs need local partners to reduce potential policy risks (Das, 1998). Even if MNEs contribute critical resources, they may not be able to increase their control accordingly. Under such circumstances, MNEs' output control and process controls are likely to be restricted. These two types of control are based mainly on formal organizational mechanisms that are explicit and visible to local partners and governments (Geringer & Hebert, 1989). Equity restrictions guarantee local partners' involvement in formal control systems, and thus restrict MNEs' strategic encroachment and operational interference. Comparatively, social control is often implicit and difficult to monitor, as it is exercised to

influence organizational norms and values. When formal control mechanisms are useful, local partners are less likely to exercise social control, which is indirect and less efficient in terms of effect (Kirsch, 1997). Thus MNEs' social control is less likely to be restricted. Therefore we suggest the following hypothesis:

**Hypothesis 1:** *Ceteris paribus*, the existence of equity restriction is negatively related with the MNE partner's exercise of output and process control in an IJV.

### Government Incentives

Fiscal, financing, and other incentives have become major instruments for attracting foreign investments. These policies are often combined with performance requirements, such as export increase, technology advancement, innovation enhancement, and environmental friendliness (OECD, 2003). If MNEs' investments meet those government requirements, they are able to get preferential treatment. Their contributions of critical resources not only help IJVs generate surplus but also are endorsed by governments. The equilibrium of bargaining power is thus tilted in favor of MNEs. Using a Nash bargaining model, Al-Saadon and Das (1996) suggested that MNEs gain bargaining power over local partners when governments offer tax/subsidy policies to MNEs. In order to meet performance requirements, MNEs usually contribute specific knowledge such as marketing and R&D expertise (Gomes-Casseres, 1990). Such knowledge contributions are embedded in processes, and require MNEs to be directly involved in venture operations. When they have process knowledge, and behavior observability is high, MNEs are able to exercise control over specific operational processes (Chen et al., 2009; Turner & Makhija, 2006). Meanwhile, knowledge transfer depends on experiences and skills of people, and requires continuous social interactions (Osborn & Baughn, 1990), thus making social control viable to MNEs. In contrast, MNEs' output control is less likely to be influenced, as government performance requirements largely confine the outcome objectives of IJVs. Therefore we propose the following hypothesis:

**Hypothesis 2:** *Ceteris paribus*, the receipt of government incentives is positively related with the MNE partners' exercise of process and social control in an IJV.



### SOE Partner Requirement

State ownership is a key strategic variable in many countries, especially developing ones (Gedajlovic, 1993). MNEs may be required to partner with SOEs because of certain host-country policies (OECD, 2003). SOE partners give governments direct residual rights of control, and make their IJVs a part of the government apparatus (Grossman & Hart, 1986; Hart & Moore, 1990). Consequently, when MNEs are required to partner with SOEs, they may lose bargaining power. Their output control is likely to be restricted, because SOEs' outcome objectives – often including political gains and social agendas – are typically different from those of MNEs (Peng, Tan, & Tong, 2004). MNEs' social control may also be constrained, because SOEs, relative to other types of firms, usually have stronger organizational inertia and resistance to changes (Lau, Tse, & Zhou, 2002). Comparatively, the MNE's process control faces less restriction. As SOEs often emphasize knowledge acquirement through joint venturing (Luo et al., 2001), they would allow MNEs to be involved in operational processes, and thus local partners could learn from their foreign partners. Given SOEs' inherent resistance to social influences from foreign partners, MNEs' process control becomes the primary venue for SOEs' learning. These policy impacts are not likely to occur, however, if MNEs can freely choose partners. They will be able to negotiate contractual and organizational arrangements beforehand to secure management control, even if they select SOE partners. Therefore we suggest the following hypothesis:

**Hypothesis 3:** *Ceteris paribus*, the requirement of having an SOE partner is negatively related with the MNE partner's exercise of output and social control in an IJV.

While the above arguments suggest the impacts of host-country policies on MNEs' management control in IJVs, we suspect that these policies do not significantly influence local partners' control activities. The policies are specifically targeted to MNEs. Local partners' activities are not directly subject to such regulatory constraints, and they do not necessarily respond to the policies imposed on their foreign partners. Even when their relative bargaining power increases, local partners, especially those in developing countries, may not have the necessary resources and capabilities to increase control accordingly (Chen et al., 2009). Furthermore, considering the multi-party interactions

among partners and IJV management, a decrease of MNEs' control does not necessarily lead to an increase of local partners' control (Luo & Park, 2004).

### METHODOLOGY

Our data were collected during 2002–2003 from relatively large manufacturing IJVs in China. We identified those IJVs with two major partners (one foreign and one local, with at least 25% equity each and 85% combined), and registered capital no less than US\$5 million, from the Chinese Enterprises and Companies Database, and checked their status and general managers' names through phone calls, Internet searches, and public records. A carefully designed questionnaire was then sent to the general managers of 1064 operating IJVs with known names. After two rounds of follow-up reminders, we received 198 valid responses (response rate=18.6%). These IJVs operated in manufacturing industries, including computer and electronics, electrical equipment, machinery, chemicals, food, and textiles. The MNE partners were from 27 countries – mainly Japan, Europe, and the US. The results of the Kolmogorov–Smirnov tests on firm age, registered capital, and the number of employees showed no significant non-response bias. We also obtained additional top managers' responses to the questionnaire from 42 IJVs. Following Yan and Gray (2001), we compared responses from the same IJV and found no significant single-informant bias. In addition, we conducted Harman's one-factor test. No single factor emerged, nor did one general factor account for over 20% of the covariance, indicating that common method bias was not a major problem in this study (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).

Using the same method as Chen et al. (2009), we measured the three types of control exercised by MNE partners. Specifically, three items were used for the measurement of *output control* (overall goal-setting, venture performance evaluation, executive rewards and recognition), five for *process control* (functional control, rules and regulations, organizational structure, job description, reporting systems), and three for *social control* (training and seminars, collaborative task forces, socialization with IJV managers). Those items were identified from a large set of items used in prior literature, and sorted out with pre-tests and *post hoc* procedures. Respondents were asked to evaluate the MNE partner's influence or involvement in these



activities on a 5-point Likert scale ranging from *very weak* to *very strong*. Item values were averaged accordingly to indicate the three control types. Factor analysis and coefficient alphas confirmed the internal consistency of the measures.

Based upon the upper limit of foreign equity, *equity restriction* was coded as a four-category variable: minority (<50%), equal share (50%), majority (>50% and <100%), and no limit (100% ownership permitted). *Government incentives* for FDI comprise three types: fiscal, finance, and regulatory (OECD, 2003). Respondents were asked to evaluate the extent of IJV benefits from these incentives on a 5-point scale ranging from *very little* to *very much*. The average value was used in our analyses ( $\alpha=0.92$ ). We also asked respondents whether the IJV was required to have an SOE partner. *SOE partner* was coded as a three-category variable, comprising required SOE partner, voluntarily chosen SOE partner, and non-SOE partner. We cross-checked the policy information with available government documents. Cases with inconsistent information were not included in the sample.

To control for transaction cost factors, we included IJV importance to the MNE partner and goal incongruence between partners. *IJV importance* was measured in terms of overall income, business operation, and global expansion on a 5-point scale ( $\alpha=0.89$ ) (Martinez & Ricks, 1989; Merchant & Schendel, 2000). Following Luo et al. (2001), a composite index was calculated based on survey responses to indicate *goal incongruence* between partners. To control for parent contributions, we measured property-based and knowledge-based resources (Chen et al., 2009). *Property contribution* is the weighted average of the partner's contributions of financial capital, land and plants, production facilities, patents and trademarks (weighted by their relative importance). Similarly, *knowledge contribution* is the weighted average of the partner's contributions of technological know-how, managerial expertise, market and local knowledge.

Several additional control variables were also included. *IJV size*, which reflects the complexity of venture management (Luo, 1997), was measured with the logarithm value of the number of employees. *IJV age*, an indicator of organizational experience (Fryxell et al., 2002), was calculated by comparing the year of survey and that of venture formation. *Parent firm size*, which reflects the parent firm's general resource condition, was measured using the natural logarithm of the number of employees. *Cultural distance* was calculated using

Hofstede's dimensions and Kogut and Singh's (1988) method. *Industry growth* was measured with respondents' perceptions of market demand increase and industry-average profitability on a 5-point scale (Luo et al., 2001).

## RESULTS AND DISCUSSION

Descriptive statistics are shown in Table 1. Among the sample IJVs, 78 reported some kind of equity restriction. While 24 were required to partner with SOEs, 121 voluntarily chose SOEs. Most of the IJVs benefited from government incentives. Multivariate general linear models (GLM) are used to test the hypotheses. This method allows us to examine the three types of control together, which are highly correlated.

Table 2 presents the results of the multivariate GLM analyses on MNE management control in IJVs. Model 1 included only control variables, and variables of interests were added in Model 2. All significance tests are two-tailed. The values of *F*-statistic ( $p<0.001$ ) and adjusted  $R^2$  (from 0.33 to 0.51) indicate that the models fit the data well. Significant increases of  $R^2$  from Model 1 to Model 2 suggest that the policy factors add explanatory power to the models.<sup>1</sup> To reduce possible multicollinearity, we used the mean-centered values of the main explanatory variables.<sup>2</sup> The generalized variance inflation factors are well below 4, indicating no significant multicollinearity problems (Fox & Monette, 1992).

Hypothesis 1 entails the relationships between equity restriction and the MNE partner's management control. As shown in Model 2, when the MNE partner is restricted to being a minority shareholder, its output control and process control are both significantly lower. However, when the equity restriction is relatively loose, allowing equal or majority ownership, no significant relationships are detected. Meanwhile, as predicted, the MNE partner's social control does not seem to be influenced by equity restriction. Such findings are largely consistent with Hypothesis 1. The findings differentiate the impacts of various levels of equity restriction, and suggest that only minority ownership restriction negatively influences MNEs' output and process control. Equal or majority equity restriction seems to level the battlefield of bargaining, and probably encourages more collaboration instead of contention for control (Li, Zhou, & Zajac, 2009).

Hypothesis 2 is partially supported. The results show that the variable of government incentives

Table 1 Means, standard deviations, and correlations

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. MNE output control	3.20	1.09	—														
2. MNE process control	2.86	1.07	0.71**	—													
3. MNE social control	2.42	0.91	0.48**	0.68**	—												
4. Local output control	2.94	0.95	-0.07	-0.13	-0.04	—											
5. Local process control	2.73	0.91	-0.15*	0.06	0.12	0.58**	—										
6. Local social control	2.51	0.90	-0.18*	0.02	0.27**	0.40**	0.65**	—									
7. Equity limit – minority	0.16	0.37	-0.23**	-0.19**	-0.06	0.03	0.08	0.07	—								
8. Equity limit – equal	0.16	0.37	0.08	0.07	-0.01	-0.05	-0.02	-0.06	-0.19**	—							
9. Equity limit – majority	0.07	0.26	0.06	0.02	0.09	-0.12	-0.14	-0.09	-0.12	-0.12	—						
10. Government incentives	3.99	1.02	0.02	0.17*	0.12	0.08	0.09	0.08	0.04	0.09	-0.12	—					
11. SOE partner – required	0.12	0.33	-0.15*	-0.13	-0.11	-0.00	0.12	0.01	0.31**	0.13	0.26**	0.03	—				
12. SOE partner – voluntary	0.61	0.49	0.29**	0.18*	0.03	0.08	0.01	-0.15*	-0.25**	0.01	-0.22**	0.13	-0.47**	—			
13. IJV size	5.82	1.18	0.03	0.01	0.11	-0.05	0.08	0.14	0.05	-0.02	0.01	0.03	0.03	-0.10	—		
14. IJV age	10.51	4.22	-0.13	-0.11	-0.02	-0.02	0.03	0.07	0.06	0.24**	-0.11	0.04	-0.01	0.02	0.15*	—	
15. MNE parent firm size	8.41	2.79	0.31**	0.20**	0.14	-0.05	-0.12	-0.07	-0.12	-0.00	0.02	0.16*	-0.06	0.15*	0.18*	-0.04	—
16. Local parent firm size	7.52	1.98	0.19*	0.14	0.08	0.08	0.06	-0.05	0.00	0.15*	0.09	0.05	0.22**	0.12	0.13	-0.02	0.32**
17. IJV importance to MNE	3.11	1.14	0.33**	0.23**	0.22**	0.04	0.07	-0.05	-0.04	0.10	-0.06	-0.01	-0.04	0.01	0.26**	0.03	0.02
18. IJV importance to local	3.69	0.97	0.02	0.04	0.13	0.38**	0.29**	0.28**	0.05	-0.08	-0.10	0.22*	-0.11	-0.02	0.30**	0.00	0.04
19. Goal incongruence	1.98	0.79	0.09	0.18*	0.23*	-0.04	0.10	0.08	0.02	-0.01	0.03	-0.01	-0.02	0.08	-0.03	-0.05	0.05
20. MNE property contribution	2.90	1.03	0.57**	0.52**	0.39**	-0.14	-0.15	-0.18*	-0.14	-0.07	0.06	0.01	-0.09	0.11	0.03	-0.16*	0.22**
21. MNE knowledge contribution	2.89	1.06	0.56**	0.58**	0.51**	-0.15	-0.12	-0.14	-0.12	0.00	0.13	0.06	0.02	0.13	0.01	-0.12	0.16*
22. Local property contribution	2.87	0.97	-0.20*	-0.13	0.04	0.38**	0.41**	0.41**	0.10	-0.09	-0.18	0.09	-0.01	-0.00	0.09	0.00	-0.10
23. Local knowledge contribution	2.98	1.08	-0.10	-0.04	0.08	0.41**	0.43**	0.40**	0.01	-0.06	-0.02	0.08	0.02	0.01	0.05	-0.08	0.02
24. Cultural distance	2.16	1.51	0.35**	0.28**	0.15*	-0.05	-0.11	-0.21**	0.03	0.10	0.12	0.04	0.07	-0.01	-0.05	-0.16*	0.26**
25. Industry growth	3.45	1.05	0.11	0.13	0.23**	0.21**	0.13	0.18*	-0.03	0.11	0.08	0.16*	0.01	-0.03	0.19*	0.02	0.17*
			16	17	18	19	20	21	22	23	24	25					
16. Local parent firm size			—														
17. IJV importance to MNE			0.17*	—													
18. IJV importance to local			0.04	0.20**	—												
19. Goal incongruence			-0.07	-0.05	-0.03	—											
20. MNE property contribution			0.18*	0.24**	0.00	0.06	—										
21. MNE knowledge contribution			0.12	0.22**	0.03	0.12	0.74**	—									
22. Local property contribution			0.02	0.03	0.28**	0.01	-0.10	-0.05	—								
23. Local knowledge contribution			0.02	0.02	0.31**	-0.01	0.04	0.05	0.73**	—							
24. Cultural distance			0.23**	0.17*	-0.05	0.11	0.32**	0.26**	-0.22**	-0.14	—						
25. Industry growth			0.20*	0.20**	0.23*	-0.01	0.02	0.00	0.10	0.16*	0.15*	—					

N=198; \*\*p&lt;0.01, \*p&lt;0.05, two-tailed.

**Table 2** Results of multivariate GLM analyses on MNE partner control in IJVs

Variables	Model 1						Model 2					
	Output control		Process control		Social control		Output control		Process control		Social control	
	B	(s.e.)	B	(s.e.)	B	(s.e.)	B	(s.e.)	B	(s.e.)	B	(s.e.)
Intercept	2.91	(0.38)***	2.56	(0.40)***	1.40	(0.37)***	2.54	(0.39)***	2.65	(0.42)***	1.68	(0.39)***
IJV size	-0.09	(0.06)	-0.06	(0.06)	0.05	(0.05)	-0.05	(0.05)	-0.04	(0.06)	0.04	(0.05)
IJV age	-0.01	(0.01)	-0.01	(0.02)	0.01	(0.01)	-0.01	(0.01)	-0.00	(0.02)	0.01	(0.01)
MNE parent firm size	0.07	(0.02)**	0.02	(0.02)	0.01	(0.02)	0.05	(0.02)*	0.00	(0.02)	0.00	(0.02)
IJV importance to MNE <sup>a</sup>	0.19	(0.06)**	0.11	(0.06) <sup>†</sup>	0.08	(0.05)	0.18	(0.05)**	0.09	(0.06)	0.08	(0.05)
MNE property contribution <sup>a</sup>	0.24	(0.09)**	0.20	(0.09)*	0.01	(0.08)	0.24	(0.08)**	0.20	(0.09)*	-0.01	(0.09)
MNE knowledge contribution <sup>a</sup>	0.15	(0.09)	0.41	(0.09)***	0.43	(0.08)***	0.13	(0.08)	0.40	(0.09)***	0.45	(0.08)***
Goal incongruence <sup>a</sup>	0.04	(0.08)	0.14	(0.08) <sup>†</sup>	0.23	(0.07)**	0.02	(0.07)	0.14	(0.08) <sup>†</sup>	0.24	(0.07)**
Cultural distance	0.06	(0.04)	0.03	(0.05)	-0.02	(0.04)	0.08	(0.04)*	0.06	(0.05)	-0.01	(0.04)
Industry growth	0.05	(0.06)	0.12	(0.06)*	0.17	(0.06)**	0.05	(0.06)	0.12	(0.06) <sup>†</sup>	0.16	(0.06)**
Equity restriction – minority							-0.36	(0.17)*	-0.40	(0.19)*	-0.03	(0.18)
Equity restriction – equal share							0.06	(0.17)	-0.12	(0.19)	-0.16	(0.18)
Equity restriction – majority							0.19	(0.24)	-0.29	(0.26)	0.04	(0.24)
Government incentives <sup>a</sup>							-0.02	(0.06)	0.12	(0.06)*	0.05	(0.06)
SOE partner – required							0.02	(0.21)	-0.14	(0.23)	-0.47	(0.21)*
SOE partner – voluntary							0.47	(0.13)**	0.02	(0.15)	-0.25	(0.14) <sup>†</sup>
R <sup>2</sup>	0.48		0.43		0.36		0.55		0.46		0.39	
Adjusted R <sup>2</sup>	0.45		0.40		0.33		0.51		0.42		0.34	
Corrected model F	18.90***		15.40***		11.50***		14.35***		10.14***		7.55***	

<sup>a</sup>Mean-centered.\*\*\*p<0.001, \*\*p<0.01, \*p<0.05, <sup>†</sup>p<0.10, two-tailed.



has a positive relationship with process control, but no significant relationships with output and social control (see Model 2). As predicted, the MNE partner seems to exercise greater process control when the IJV benefits more from FDI incentives, whereas output control is not likely to be affected by government incentives. Such findings are consistent with research on resource contribution and management control (Chen et al., 2009), and suggest connections between government incentives and knowledge contribution. Contrary to our expectation, the impact of government incentives on MNEs' social control is insignificant. A possible explanation for this result is that MNEs' social control activities may be limited because local Chinese partners tend to emphasize their own ways of social interactions in collaborations (Xin & Pearce, 1996).

Hypothesis 3 predicts how the requirement of having an SOE partner influences MNEs' control activities. The results show that such a requirement is not significantly linked to output control. Instead, when MNEs voluntarily choose SOE partners, they tend to exercise greater output control (see Model 2). This is probably because MNEs are concerned about SOEs' political and social objectives (Gedajlovic, 1993). When MNEs can freely choose partners, they will increase output control in order to guarantee their own outcome goals. However, when they are forced to take an SOE partner, they may not be able to increase output control as they would. Such findings imply the restrictive effect of SOE partner requirement on output control. Meanwhile, as expected, SOE partner requirement is not significantly linked to MNEs' process control. Additionally, MNEs' social control is significantly lower, as predicted, when they are required to partner with SOEs, and marginally lower when they voluntarily choose SOEs (see Model 2). The results suggest that MNEs' social control is restricted when SOE partners are required, and such restriction weakens without the requirement. These findings are largely consistent with our hypothesis.

In order to gain a comprehensive understanding of the policy impacts on IJV control, using a similar method we conducted a *post hoc* analysis of the influences of those host-country policies on local partners' control activities. Descriptive statistics are included in Table 1. Table 3 presents the results of our multivariate GLM analyses of local partners' control in IJVs. As we suspected, the policy factors do not show significant relationships with local partners' control activities. The only exception is

SOE partner requirement, which is marginally linked to greater process control. This is probably due to the learning objective of those SOEs (Luo et al., 2001). Such results indicate that host-country policies primarily influence MNEs, and local partners are largely passive reactors to the policy impacts on their foreign partners. These findings are consistent with the recent development in IJV literature, which suggests that foreign and local partner control can be treated as separate constructs (e.g., Chen et al., 2009; Choi & Beamish, 2004; Luo et al., 2001). The factors that affect foreign partner control do not necessarily have corresponding effects on local partner control.

In another *post hoc* analysis, we further examined the share of each specific control type relative to the aggregated control. The results are consistent with our findings on the actual levels of control. For MNE partners, minority equity restriction reduces output and process control, and thus is positively linked to the share of social control; the receipt of government incentives increases process control, and is marginally positively linked to the share of process control; SOE partner requirement is negatively linked to social control as well as the share of social control. For local partners, none of the policy factors show significant relationships with the share of a specific control type.

In addition, some control variables show interesting relationships with partner control activities. Consistent with the findings of Chen et al. (2009), property contribution is positively linked with output and process control, and knowledge contribution is positively linked with process and social control. MNEs tend to have greater output control when they themselves are big, or IJV importance to them is high, and they exert greater process and social control when goal incongruence or industry growth is high. Local partners tend to exercise greater output control on large IJVs, and greater output and process control when they view IJVs as important.

## CONCLUSION

This study extends the bargaining power model to examine how host-country policies influence MNEs' management control in IJVs. Our findings suggest that MNEs exercise less output and process control when minority equity restriction is present, more process control when they receive government investment incentives, and less social control when they are required to partner with an SOE.

The findings enhance our understanding of IJV control systems. Like equity structure and contracts, management control is an essential part of IJV



**Table 3** Results of multivariate GLM analyses on local partner control in IJVs

Variables	Model 1						Model 2					
	Output control		Process control		Social control		Output control		Process control		Social control	
	B	(s.e.)	B	(s.e.)	B	(s.e.)	B	(s.e.)	B	(s.e.)	B	(s.e.)
Intercept	3.29	(0.42)***	2.42	(0.41)***	2.07	(0.41)***	3.19	(0.44)***	2.46	(0.42)***	2.28	(0.41)***
IJV size	-0.14	(0.06)*	0.02	(0.05)	0.06	(0.05)	-0.14	(0.06)*	0.01	(0.06)	0.05	(0.05)
IJV age	-0.00	(0.01)	0.01	(0.01)	0.01	(0.01)	-0.00	(0.02)	0.01	(0.02)	0.02	(0.01)
Local parent firm size	0.01	(0.03)	0.02	(0.03)	-0.03	(0.03)	0.01	(0.04)	0.01	(0.03)	-0.01	(0.03)
IJV importance to local <sup>a</sup>	0.29	(0.07)***	0.14	(0.07)*	0.10	(0.07)	0.29	(0.07)***	0.13	(0.07) <sup>†</sup>	0.07	(0.07)
Local property contribution <sup>a</sup>	0.25	(0.09)**	0.22	(0.09)*	0.11	(0.09)	0.23	(0.10)*	0.20	(0.09)*	0.14	(0.09)
Local knowledge contribution <sup>a</sup>	0.12	(0.09)	0.19	(0.08)*	0.16	(0.08)*	0.13	(0.08)	0.21	(0.09)*	0.19	(0.09)*
Goal incongruence <sup>a</sup>	0.05	(0.04)	0.08	(0.08)	0.09	(0.08)	-0.06	(0.08)	0.09	(0.08)	0.12	(0.08)
Cultural distance	0.06	(0.04)	-0.02	(0.04)	-0.06	(0.04)	0.03	(0.04)	-0.02	(0.04)	-0.06	(0.04)
Industry growth	0.08	(0.06)	0.00	(0.06)	0.07	(0.06)	0.09	(0.06)	0.01	(0.06)	0.06	(0.06)
Equity restriction – minority							0.01	(0.19)	-0.00	(0.18)	-0.05	(0.18)
Equity restriction – equal share							-0.16	(0.19)	-0.15	(0.18)	-0.17	(0.18)
Equity restriction – majority							-0.15	(0.27)	-0.38	(0.25)	-0.21	(0.25)
Government incentives <sup>a</sup>							-0.01	(0.06)	0.05	(0.06)	0.08	(0.06)
SOE partner – required							0.19	(0.24)	0.40	(0.23) <sup>†</sup>	-0.13	(0.22)
SOE partner – voluntary							0.12	(0.15)	-0.01	(0.14)	-0.39	(0.14)**
R <sup>2</sup>	0.29		0.26		0.27		0.30		0.29		0.31	
Adjusted R <sup>2</sup>	0.25		0.23		0.23		0.24		0.23		0.25	
Corrected model F	8.18***		7.23***		7.39***		4.92***		4.83***		5.19***	

<sup>a</sup>Mean-centered.\*\*\*p<0.001, \*\*p<0.01, \*p<0.05, <sup>†</sup>p<0.10, two-tailed.



governance, and has a significant impact on IJV performance. To understand the creation and evolution of management control, we need to examine the antecedents of control. Adding to previous research on transaction cost concerns and resource contributions, this study addresses external policy influences on MNEs' control activities. Instead of what control MNEs desire, we answer what control MNEs can obtain. The actual control is determined by partners' resource contributions as well as external institutions. The study provides insights into what types of control MNEs could exercise under the host country's regulatory policies, and to what extent. Moreover, this study expands our understanding of the impacts of host-country policies, which affect not only MNEs' early entry decisions but also subsequent managerial activities.

This study also calls for further research on the relationship between host-country policies and MNE management control in IJVs. First, future studies can consider a variety of governmental policies. In addition to ownership restriction, investment incentives, and partner requirement, MNEs may be subject to other policies such as trade protection, local content requirement, and transfer pricing (Al-Saadon & Das, 1996; Das & Katayama, 2003). Second, future studies may further explore how foreign and local partners react to government policies. In our study, they show distinct behavioral patterns. It would be interesting to study which partner is affected by which policy, whether the impact is direct or indirect, and how the other

partner might react to the impact. Third, continuous policy changes also create challenges for MNEs (Das, 1998; Sinha, 2001). Thus scholars may investigate how MNEs adjust their activities along with the evolution of governmental policies. Lastly, future studies could compare various country-specific contexts, which are often drivers of domestic policies, to explain external policy implications in IJV control. Even similar policies across countries may influence IJV control differently according to other contextual factors. Our study is limited to a single country study, that is, China, and thus the findings have limited generalizability. This certainly calls for further exploration in future research.

### ACKNOWLEDGEMENTS

The authors thank Editor-in-Chief Lorraine Eden, special issue editor Mike Peng, and anonymous reviewers for their insightful comments and constructive suggestions. This research was supported in part by the China Europe International Business School (CEIBS) in Shanghai.

### NOTES

<sup>1</sup>We also examined the policy factors individually and found that the relationships remained unchanged. In consideration of possible nesting of the two categorical variables (equity restriction and SOE partner requirement), we performed two-level linear modeling and obtained similar results.

<sup>2</sup>The use of mean-centered variables also contributes to the strong intercepts of the models.

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*Accepted by Mike Peng, Guest Editor, 6 November 2009. This paper has been with the authors for five revisions.*

**Fonte: Journal of International Business Studies. Disponível em: [www.palgrave-journals.com](http://www.palgrave-journals.com). Acesso em: 30 mar. 2010.**

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