



# Joint venture dynamics: The effects of decisions made within a parent company and the role of joint venture management control



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## ABSTRACT

This study aims at understanding the dynamic processes, which we call JV dynamics, over the life of JV relationships. It focuses on JV dynamics created by decisions made within one of the parent companies. It uses the case study methodology to analyse the antecedents that lead to decisions made within a parent company and to understand how these decisions create dynamic processes. In addition, it investigates the role of the JV management control in these processes. This study contributes theoretical insights into JV dynamics in various ways. It shows that in addition to antecedents in the environment of the JV relationship, within the JV relationship, and within a parent company, antecedents in the environment of a parent company can create JV dynamics. These dynamics can weaken or cement a JV relationship. Furthermore, it indicates that specific behavioural features of a parent company's decision-makers, including its key personnel directly involved in the JV relationship, can create JV dynamics. For example, if a parent company's decision-makers do not learn over time how to co-operate with the partner, their decisions can easily have unintended effects and lead to JV dynamics. Another contribution is that an unclear decision-making and communication structure of a parent company can hinder effective communication between the parties and thereby lead to inefficiencies in the co-operation and unmet expectations, which increases the level of uncertainty within the JV relationship. A high level of uncertainty within the JV relationship can create complex dynamic processes, especially in combination with tight control of the JV and a strong bargaining power of the parent company. Finally, this study reveals the various roles the JV management control can play in JV dynamics.

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## 1. Introduction

This study aims at understanding dynamic processes in joint venture (JV) relationships. We define a JV relationship as a long-term transactional relationship between at

least two independent companies, which have established a new legal entity for jointly executing new activities. The independent companies are the owners or parent companies of the new legal entity or JV. The term "JV relationship" includes the JV and its activities, the relationship between the parent companies, and the relationship between the parent companies and the JV.

Various authors (e.g., Beamish and Lupton, 2009; Doz, 1996; Inkpen and Currall, 2004; Killing, 1983; Yan, 1998; Yan and Zeng, 1999) have reported that the JV relationship

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is a dynamic organisational form. Most of the authors who paid attention to the dynamics of JV relationships focused their study on the termination of these relationships (Beamish and Delios, 1997; Harrigan, 1986; Harrigan and Newman, 1990). Less attention, however, has been paid to the dynamic processes during the life of a JV relationship; particularly, how antecedents within and outside a JV relationship influence the relationship over its lifetime and, thereby, create dynamic processes (Yan and Zeng, 1999; Reuer et al., 2002; Beamish and Lupton, 2009).

Some authors (e.g., Parkhe, 1993; Yan, 1998; Bamford et al., 2004; Kamminga and Van der Meer-Kooistra, 2007) have argued that a main reason for these dynamic processes is the complexity of the management control of these relationships exercised by the parent companies; which we call JV management control<sup>1</sup>. JV management control is complex as the parent companies share the management control of the JV and, moreover, have to control the relationship with each other. Kamminga and Van der Meer-Kooistra (2007) claim that the JV management control exercised by the parent companies has to be geared to the characteristics of the JV relationship. If the JV management control does not match the characteristics of the JV relationship, such a mismatch may weaken the relationship. This study focuses on dynamic processes in JV relationships during their life. We use the term of JV dynamics to refer to the chains of effects, which may weaken or cement the JV relationship, and the responses by the parent companies over the lifetime of JV relationships. JV dynamics is a multifaceted phenomenon, as various developments within and outside a JV relationship can affect the relationship (Yan and Zeng, 1999). So far, the literature has focused on the effects of environmental developments and developments inside the JV itself on JV dynamics and has not paid much attention to the effects of decisions made within the parent companies. However, the parent companies play a pivotal role as they determine the JV's strategy and activities and decide about the continuation or termination of the JV relationship. Therefore, we focus our study on how decisions made within parent companies can create JV dynamics. More specifically, as we will explain below, we study the effects of decisions made within one of the parent companies on JV dynamics. Moreover, we examine the antecedents of these decisions. Insights into these antecedents will increase our understanding of how a parent company's decisions can affect the JV relationship and create JV dynamics.

The central research question of this study is: how can decisions made within a parent company lead to JV dynamics, and what is the role of the JV management control in these dynamics? We use Yan and Zeng's (1999) claim that JV dynamics can be caused by antecedents that can be found: (1) within the parent companies; (2) within the JV relationship (i.e., in the JV and in the relationship between the JV parties); and (3) in the environment of the JV relationship. We will investigate how these antecedents lead to decisions made within a parent company which create

JV dynamics. Furthermore, we investigate how the parent companies respond to the effects of these decisions on the JV relationship, and, more specifically, how they use the JV management control to counteract effects that weaken the JV relationship. In addition, we investigate the conditions that could strengthen the effects of a parent company's decisions on JV dynamics and, thereby, create complex dynamic processes.

In this study, we explore the behaviour of one of the parent companies and try to understand how decisions made within this parent company can affect the JV relationship and lead to JV dynamics. Studying a JV relationship from the perspective of one of the parent companies allows us to examine how the parent company responds to internal and external developments and to developments in the JV relationship, and thereby pays attention to possible effects on the JV relationship and takes care of its partner's interests; how it deals with its partner's responses to the consequences of its decisions for the JV relationship; and how it uses the JV management control to counteract effects of its own decisions as well as of its partner's responses that weaken the JV relationship. Moreover, it enables us to investigate how the parent company incorporates its expectations of its partner's behaviour into its decision-making despite uncertainty about this behaviour.

To understand the phenomenon of JV dynamics empirically, we examined a JV relationship in practice over its lifetime. The JV, which was located and operated in Southeast Asia, is owned by two parent companies: a European company and an Asian company. We studied the decision-making behaviour of the European company. Over the lifetime of the JV relationship the European company made various decisions that affected the relationship and led to responses by the Asian company. As these responses had consequences for the JV relationship, the European company made adaptations to its initial decisions as well as to the management control it had put in place to manage its relationship with the JV and the Asian company.

The paper is structured as follows. In the next section, we will develop a theoretical framework to explain the effects of decisions made within a parent company on JV dynamics. In Section 3, we will discuss the research methodology and the research design. In Section 4, we will present the case of the JV relationship established by a European and an Asian company and describe and analyse how the decisions made within the European company led to JV dynamics. In Section 5, we will discuss the findings of the case study and revise the initial theoretical framework. In addition, we will elaborate on the theoretical contributions of our study. In the final section, we will draw some concluding remarks, and discuss the limitations of our study. Linked to the limitations, we will propose some avenues for further research.

## 2. Towards a theoretical framework

In this section, based on the literature, we will develop a theoretical framework to explain how decisions made within a parent company create JV dynamics and the role of the JV management control in these dynamics. The theoretical framework incorporates the antecedents that lead

<sup>1</sup> JV management control includes the control of the JV as well as the control of the relationship between the parent companies.

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