

# Control and Performance in International Joint Ventures in Turkey

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This study investigates the relative significances of different control mechanisms in creating control and the impact of control on performance in developing-country-based international joint ventures. Different from mainstream past research, local parent's perspective is reflected. Strategic and operational control, and performance in terms of financial returns and goal achievement are distinguished from each other to provide a more comprehensive picture. Findings reveal that local parents acquire control through contribution of various resources to the partnership. Additionally, while strategic and operational control may affect certain financial returns, they do not lead to a difference in terms of goal achievement performance.

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**Keywords:** Mechanisms of control, Extent of control, Performance, Financial performance, Goal achievement performance, International joint ventures, Turkey, Developing countries

## Introduction

Established by the capital and non-capital contributions of firms from different countries, international joint ventures (IJVs) are widely used in international expansion efforts (Brouthers and Bamossy, 2006). IJVs with local firms emerge as the most preferred mode of foreign market entry for multinational corporations (MNCs) entering developing country markets (Lee and Beamish, 1995). However, despite their

increasing number and the strategic advantages they provide, IJVs emerge as a problematic organizational form in terms of performance (Beamish and Delios, 1997; Robson *et al.*, 2002; Brouthers and Bamossy, 2006).

Past literature on IJVs (e.g. Killing, 1983; Geringer and Hebert, 1989; Mjoen and Tallman, 1997; Yan and Child, 2004) recognizes the control exercised by the parents over the IJV as a significant determinant of performance. Insufficient control over an IJV may not only limit a parent's ability to actualize its objectives and to protect the strategic competencies it shares with the IJV but also decrease the IJV's ability to effectively utilize the resources provided by this parent (Mjoen and Tallman, 1997; Child and Faulkner, 1998). Thus, establishment of a sound control structure is significant for both fulfilling the parents' performance expectations and the satisfactory performance of the IJV as an independent entity.

Although research has shown differences between developing and developed country parents in terms of their perceptions of the relationship between control and performance, there are a limited number of studies approaching the issue from the developing country's point of view (Luo *et al.*, 2001; Yan and Gray, 2001). This study aims at analyzing the control-performance relationship in the context of a developing country and from the developing country parent's perspective. Specifically, the relationship between the control mechanisms used by the local firms and the extent of control these mechanisms create on the one hand, and the relationship between control and performance on the other will be investigated. In the analysis of the second relationship,

performance, which has usually been studied from the foreign parent's perspective, will be evaluated from the local parent's perspective.

The next section provides an overview of the literature on the pre-mentioned relationships. The third section describes the context of the study while the fourth section focuses on the sample, data, variables and the methods used. The fifth section provides the findings and the last section concludes.

### Control and Performance in IJVs

In the context of IJVs, control refers to the process by which a parent influences the behavior and output of the IJV and its partner(s) through the use of formal and informal mechanisms (Geringer and Hebert, 1989) such as equity ownership, board representation, appointment of key IJV managers and input contribution (Schaan, 1983; Geringer and Hebert, 1989; Yan and Luo, 2001). In an IJV, parents may aim at acquiring strategic and operational control (Child and Yan, 1999). Distinguishing between these two types of control is significant not only because different control mechanisms may lead to different types of control but also since there is need to distinguish between the impacts of each type of control on performance.

#### Control Mechanisms and Extents of Strategic and Operational Control

Figure 1 displays the expected relationships between the control mechanisms analyzed in this study and, strategic and operational control.

##### Equity Ownership

Among different forms of strategic alliances, IJVs are recognized for the greater extent of control they provide. From a transaction cost perspective, IJVs replicate the characteristics of hierarchies more closely than other alliances because of the equity shares held by the alliance members (Osland *et al.*, 2001; Casci-

aro, 2003). While equity is seen as a primary mechanism of control in transaction cost theory literature (Makino and Beamish, 1998), it is equated to the extent of control a parent has by some bargaining power theorists (Blodgett, 1991). According to Blodgett (1991), equity is the result of the negotiations between the parents and thus a sign of their relative power. Although some recent studies on alliances do not see control as an automatic consequence of equity (e.g. Mjoen and Tallman, 1997), its significance should be recognized in developing countries as developed country firms also use equity as a source of control in their IJVs based in developing countries (Beamish, 1985).

There is a great deal of support in the literature that equity ownership leads to strategic control (e.g. Lee *et al.*, 1998; Wang *et al.*, 1998; Yan and Child, 2004). However, there is disagreement regarding its impact on operational control (Child *et al.*, 1997; Child and Faulkner, 1998; Yan and Gray, 2001). According to Child and Faulkner (1998), ownership cannot result in operational control, as implementation of the strategic policies requires contribution from the other parent. Child and Faulkner (1998) look at the issue mainly from the foreign parent's point of view and underline the dependence of the foreign parent on the local parent, who is more proximate to the IJV, for decision implementation. Their approach may be valid for foreign parents since other mechanisms of control, such as appointment of key managers, can be a more influential means of exercising control for them. However, given the local parent's proximity to the IJV, equity ownership can facilitate local parent's ability to exert operational control by increasing its bargaining power over the foreign parent. Thus, equity is expected to be positively related to the extents of both strategic and operational control that the local parent enjoys.

##### Board Representation

Boards of directors can fulfill certain duties that can be categorized under the headings of control, service and resource acquisition. The control role entails directors' monitoring of managers as representatives of the shareholders (Johnson *et al.*, 1996). In IJVs, boards provide a context for controlling not only the managers some of whom may be appointed by another parent but also the other parent. The service role involves provision of advice and counsel to management on administrative and other managerial issues (Johnson *et al.*, 1996; Young *et al.*, 2001). In the fulfillment of this role, board members may take an active role in shaping the firm's strategic goals and plans and thereby acquire control over the firm's strategic actions. Thus, board representation of a parent can be seen as another mechanism of strategic control (Yan and Gray, 1994; Child and Yan, 1999).

Although the voting control on board is related to the ownership structure, there is not necessarily a one-to-one correspondence between ownership and

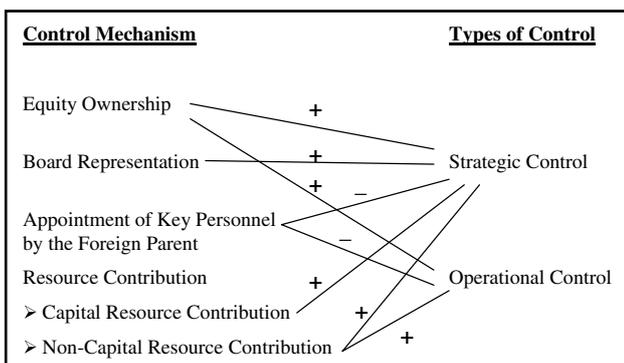


Figure 1 Expected Relationships between Control Mechanisms and Types of Control

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