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Parents' Contribution and Management Control of Joint Ventures

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To deal with the complexity of management control of joint ventures, we have developed a new theoretical model which pays specific attention to the characteristics of the parents' contributions and the three dimensions of management control of joint ventures; the mechanisms, the tightness, and the focus. The value of the model was examined by means of case research.

Keywords: Joint ventures, Management control, Parents' contributions, Measurability, Information asymmetry, Trust, Case studies

Introduction

Management control issues in the context of joint ventures bring up some very interesting matters. As opposed to wholly-owned subsidiaries, which have only one parent, joint ventures have at least two different autonomous parents. These different parents, who each may have differing interests, have to cope jointly with their ''shared'' subsidiary. This complicates the issue of management control. In the literature, the topic of management control of joint ventures (which in the following will be referred to as joint venture control) has received attention for quite some time. One way in which joint venture control has been studied is by looking at the role played by each parent in the decision-making of the joint venture. On the basis of this role, Killing (1983, 1988) developed a typology of joint ventures consisting of four types. An issue which has been given much attention is which of these types perform most successfully (e.g. Killing, 1983; Beamish, 1985; Choi and Beamish, 2004). The findings with respect to this issue, however, have been highly contradictory.

In this paper, we will argue that one reason for these contradictions is lack of attention to the characteristics of the parents' contributions. Considering more specifically these characteristics of the parents' contributions, we think that, in terms of Killing's (1988) typology, there is not one best type of joint venture, but that, depending on the characteristics of the parents' contributions, different types will be more suitable in different situations. Therefore, in order to increase the understanding of joint venture control, more specific attention has to be paid to the characteristics of the parents' contributions. Another issue which has come up in the literature is that joint venture control is not a simple one-dimensional concept. Geringer and Hebert (1989) discuss that the extent to which the parents are involved in the decision-making of the joint venture is only one aspect of joint venture control. Two other aspects are the type of mechanisms which parents may use to exercise control and the focus of the exercised control. Therefore, Geringer and Hebert (1989) conclude that new theoretical models have to be developed which integrate these three different aspects.

The aim of this paper is to increase the understanding of joint venture control by elaborating on and combining both issues discussed above. We will examine the topic of joint venture control by approaching it from a parents' contributions perspective. In this way, logically, as will be discussed in section 2, four types of joint ventures can be distinguished. For each of these types, we will more comprehensively examine joint venture control by paying specific attention to all the three dimensions of joint venture control as distinguished by Geringer and Hebert (1989). As a result, we will propose that these four types of joint ventures have their own typical control pattern.

In order to see whether our theoretical ideas can help acquire a better understanding of joint venture control in practice, we have conducted case research. In four case studies of joint ventures, we have examined whether our model helps to understand the control practice in these cases.

The paper is organized as follows. In sections 2 and 3, we will discuss the theoretical concepts leading to the four joint venture control types; section 2 we will develop the different joint venture types on the basis of differences in the parents' contributions and section 3 we will examine the control characteristics of these different types. Then section 4 will pay attention to the research methodology. Section 5 will present the four case studies we conducted. In section 6, our theoretical propositions will be discussed by means of the findings of these case studies. The paper will end with some final conclusions in section 7.

Developing Four Different Joint Venture Types from a Parents' Contributions Perspective

As discussed above, on the basis of a joint venture control perspective, Killing (1983,1988) developed a typology of joint ventures. Depending on the role played by each partner in the decision-making of the joint venture, he distinguished the following types of joint ventures; ''the independent venture in which the venture general manager is given a great deal of autonomy to manage as he sees fit, the dominant parent venture in which one parent plays a dominant managerial role, the split control venture in which each parent plays a separate and distinct role, and the shared management venture in which both parents play an active managerial role so all significant decisions are shared'' (Killing, 1988, p. 62). A topic which has been given much attention in the literature is what these types of joint ventures perform most successfully. The findings with respect to this topic, however, were highly contradictory. While some researchers found that the dominant parent ventures perform most successfully, other found that shared-management ventures lead to the best performance (for an overview see Choi and Beamish, 2004). Different explanations have been used to explain the ''sovereignty'' of a type. Killing (1983) stresses the advantage of the dominant parent joint venture. As in this type one parent controls the joint venture, the effort and costs of shared decision-making can be avoided. However, for joint ventures in developing countries, Beamish (1985) found the best performance with shared management joint ventures. His explanation is that in a shared management joint venture, all parents feel the responsibility of performing well with respect to their own joint venture contributions. Choi and Beamish (2004) consider control as a ''conduit through which parents' firm-specific advantages are transferred to the venture'' (p. 202). From this control perspective, they argue that a split control venture would perform better than the other types. As each parent has the best capabilities of managing the application of its own contributions to the joint venture, each parent should be involved in those joint venture activities which are related to its own contributions. At the same time, by choosing a split control venture instead of a shared management venture, advantages with respect to division of labour can be gained.

One issue which confuses the above explanations about the best performing joint venture type is the fact that the different explanations have different assumptions with respect to the characteristics of the parents' contributions. While Killing (1983) strongly favours the dominant parents' joint venture, he also discusses that this type of joint venture will only be possible if the dominant parent contributes all the crucial assets. If all parents contribute crucial complementary assets, a dominant parents joint venture will no longer be suitable. When considering Beamish's (1985) and Choi and Beamish's (2004) explanations about the best performing joint venture type, these explanations only apply to joint ventures in which all the different parents contribute crucial complementary assets. Therefore, to understand the suitability of the different joint venture types and to understand joint venture control more generally, it seems reasonable to have a more systematic look at the characteristics of the parents' contributions.

When we assume for reasons of simplicity joint ventures with two parents, logically, there are four different situations. First, the different parents may contribute similar types of assets and skills to the joint venture. This type of joint venture is typically set up for reasons of economies of scale. Different organizations may, for instance, decide to jointly explore minerals via a joint venture from an economies of scale perspective. Hennart (1988) describes such a joint venture as a scale joint venture. Second, most of the assets and skills may be contributed by one of the parents. The other parent's contributions are limited to financial resources. Third, the different parents may contribute different but complementary crucial assets. This type of joint venture is described by Hennart (1988) as a link joint venture. Fourth, the parents' contributions to the joint venture may be very limited. Due to the uncertainty and the information asymmetry between the parents and the joint venture management, it may be reasonable to have the joint venture develop the required assets and skills on its own. An example of this type of joint venture may be an R&D joint venture.