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Operating autonomy in Chinese-foreign joint ventures

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ABSTRACT

With asymmetries in resource contributions and uncertainty regarding local operations, the degree of operating autonomy given to a venture is a frequent source of conflict between JV parents. To what extent can JV managers decide for themselves, and when do they need parental approval? We analyze this pivotal question drawing on the resource dependence theory to explain how much autonomy was provided to Chinese-foreign JVs. We find that resource dependence on foreign parents' contributions provided a stronger explanation to JV operating autonomy than that of Chinese parents' contributions – the local parent allowed a higher level of autonomy to its JV in comparison to the foreign parent.

1. Introduction

The appropriate level of autonomy for subsidiaries of multinational companies (MNCs) is an enduring and controversial topic. Conventionally, MNC headquarters is the center of making strategic decisions for its subsidiaries (Chandler, 1962). An implicit assumption in this line of thinking is that the MNC headquarters has the best knowledge of strategic mapping for all of its subsidiaries. It is also assumed that this top-down approach is more effective in coordinating and integrating resources across subsidiaries worldwide (Mintzberg, 1979). More recent research on the MNC-subsidiary relationship suggests that subsidiaries should be active players in formulating and implementing subsidiary actions which collectively shape the MNC global strategy (Bartlett & Ghoshal, 1989; Birkinshaw & Morrison, 1995; Clark & Geppert, 2011; Taggart, 1997). According to this view, autonomous subsidiaries can (1) respond faster to local competitive requirements than the headquarters office can (Chung & Beamish, 2005; Prahalad & Doz, 1987), (2) enable useful knowledge generation and acquisition more effectively (Gupta & Govindarajan, 1991; Zhao, Anand, & Mitchell, 2005), and (3) influence development of a more appropriate strategic orientation for the entire MNC (Birkinshaw & Hood, 2000). Thus, autonomous subsidiaries are often superior in making appropriate strategic decisions consistent with the ultimate aim of improving MNC strategy (O'Donnell, 2000).

This shift of perspectives has altered views concerning the dynamism of the MNC headquarters-subsidiary relationship as well as expanded the importance of the autonomy dimension of research concerning decision-making within MNC subsidiaries. When the MNC subsidiary under observation also shares equity with a local firm (*to wit*, when the subsidiary is an equity JV) researchers have often focused on structural questions concerning the organizational form instead of looking at autonomy issues (Butler & Sohod, 1995; Lyles & Reger, 1993). JV autonomy has been a neglected topic in JV studies perhaps because emphasis on parent goal achievement has directed research interests towards studying how JVs can be controlled to serve the best interest of its parents (Geringer & Hebert, 1989; Yang, 2011). This emphasis, however, has left us with limited knowledge of how an active, relatively-independent JV can best contribute to JV success.

Prior research has examined the determinants of JV decision making, and suggested that equity ownership is an effective predictor of decision making as equity ownership gives JV parents legitimate authority over the JV (Lyles & Reger, 1993; Yan & Gray, 2001). However, investigations on the link between equity ownership and JV decision making have mixed up concepts and subsequent results, such as using equity share as a proxy of parent control (Blodgett, 1991) or as a proxy of the parent's resource commitments (Anderson & Gatignon, 1986), or using the parent's resource contribution as a proxy of reduced JV autonomy (Robins,

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Tallman, & Fladmoe-Lindquist, 2002). Yet, equity, resource contribution and JV autonomy are in fact separate concepts and their relationship may not be readily evident. More research is needed to investigate how the JV develops its autonomy status and what determines the level and area of JV autonomy.

To address these theoretical and empirical gaps, we develop a model associating parent firms' equity stakes and resource contributions with JV operating autonomy and suggest that these two factors are important for explaining JV operating autonomy. In particular, resource contributions enhance the bargaining power of the parent on relevant decisions, which may constrain the JV autonomy on these decisions. The critical position of equity and resources in influencing JV decisions allows us to find a small number of factors that can predict JV operating autonomy.

JV operating autonomy concerns the JV's freedom to make decisions over key areas of operations. We consider the case that the JV is an independent entity that has the capacity and desire for its own decision-making (Lyles & Reger, 1993). Beyond the traditional distinction between strategic and operational decisions in prior studies (e.g., Newburry, Zeira, & Yeheskel, 2003), we focus on several key decision areas on which the JV can adjust its autonomy status.

We further propose that JV decision-making responsibility varies – depending on whether the transfer of decision-making is from its local parent or from its foreign parent. Gaps in institutional environments may induce differences in the parents' ways of decision-making and in the areas of their transfer of decision-making responsibility to their JV (Hennart & Larimo, 1998; North, 1990). We discuss autonomy of JVs that are located in an emerging market, China, whereby a local Chinese parent firm collaborates with a foreign firm from an advanced economy. China is rampant with JV activities which are characterized with unbalanced parental contribution of resources, knowledge, and skills (Beamish, 1993). This asymmetry may attribute peculiarity to JV autonomy in China that is different from JVs in more developed economies (Newburry & Zeira, 1999). The Chinese market is characterized by institutional stringency, regulatory ambiguity, structural uncertainty, and a weak legal system (Meyer, 1998), which require foreign partners to reduce external dependence on resources while enhancing intra-organizational reliance on resources to alleviate market threats (Luo, 2003). Hence, foreign partners are more likely to control the JV decisions related to their internally transferred resources. Rather than look at JV autonomy as a composite whole, we emphasize the relative level of autonomy that the Chinese parent and the foreign parent allow their JV to have. We claim that, compared to local partners, foreign partners are more likely to rely on internal resources and control the use of these resources in the JV, so the amount of autonomy experienced by JVs with each parent can be predicted at best with asymmetrical accuracy.

We contribute to the literature in two major ways. First, we extend resource dependence theory to address the interdependence relationship between parent companies and the JV. We maintain that autonomy is multiple, dyadic relationships between the JV and each of its major parents. In other words, the JV forms with each parent a resource-interdependence relationship, which determines the JV's autonomous status vis-à-vis the parent. This extension offers a new and enriched perspective to understanding the multi-party relationship of the JV. Second, we examine predictors – equity and resource contribution – of operating autonomy and distinguish parental differences in allowing various levels of operating autonomy to the JV. In an emerging market context, Chinese and foreign parents differ in their dependence on internal and external resources to manage environmental uncertainties, hence the parental choice in resource utilization determines the level of autonomy each parent allows the JV to have. Contextual characteristics of the emerging market provide an opportunity to test and enrich the existing theory from new angels.

2. Theory and hypotheses

The *resource dependence view* regards resource dependence to be the precondition for setting up a JV between parent firms; resource dependence also affects the extent of each parent's involvement in JV decisions (Blodgett, 1991; Butler & Sohod, 1995; Kumar & Seth, 1998; Robins et al., 2002). We believe that operating autonomy should be driven by the JV's reliance on resources. Reversely, JV's independence from parent resources allows it to make autonomic decisions, and circumvent the influence of the parents.

Resource dependence theory views an organization's search for resources in relation to other organizations with which it competes for and exchanges resources (Aldrich, 1971). Since resource acquisition is the driving force behind inter-organizational transactions (Pfeffer & Salancik, 1978), resource dependence theory assumes that organizations are re-shaping themselves through constantly acquiring and exchanging resources – such as products and services, information and capital – with other parties because the entity cannot be self-sufficient (Aldrich, 1976).

In some situations, organizations must rely on a small number of parties for key resources. This increases the intensity of dependence of an organization on the parties that provide those resources – which limits the organization's flexibility and self-determination capacity while it increases uncertainties related to the environment (Pfeffer & Salancik, 1978). The less-powerful party can change its relative power status, for example, by absorbing organizational interdependence through participation in a JV (Pfeffer & Salancik, 1978). JVs are formed to link, stabilize and manage a focal organization's resource dependence on other organizations (Pfeffer & Nowak, 1976). To this end, JVs facilitate the exchange of information and pooling of personnel and resources (Harrigan, 1986; Killing, 1983). JVs are used therefore to absorb resources from both parents, thereby reducing competition for resources and uncertainty for each parent company. Note that the JV is considered to be a response to environmental requirements (i.e., to manage interdependence), while the JV does not itself create organizational interdependence (Pfeffer & Nowak, 1976). The center of discussion in this theory has been the parent companies; the relationship between a JV and its parent companies has not been discussed.

We extend resource dependence theory beyond the parent-centric perspective of resource-sharing between collaborating partners to the inclusion of the JV in the decision-making relationship. We hold that examining the interdependence relationship between the respective parent companies and their JV offers a new and enriched perspective to understanding the multi-party relationship of the JV; in particular, it opens the path of seeing the JV as a separate company seeking for decision autonomy. Two dimensions – mutual dependence and power imbalance – provide us with further insight pertaining to inter-firm relationships (Casciaro & Piskorski, 2005).

2.1. Mutual dependence

Mutual dependence between parties is a property of social relations (Emerson, 1962). While party *B* depends on party *A* to achieve *B*'s goals, *A* simultaneously depends on *B*'s actions to achieve *A*'s goals. Interdependence between organizations is not only a consequence of transaction (Pfeffer & Salancik, 1978), but also a structure that maintains the transaction relationship. The JV