1983

Parent Control And Joint Venture Success: The Case Of Mexico

Jean-louis Francois Schaan

Follow this and additional works at: https://ir.lib.uwo.ca/digitizedtheses

Recommended Citation
https://ir.lib.uwo.ca/digitizedtheses/1252

This Dissertation is brought to you for free and open access by the Digitized Special Collections at Scholarship@Western. It has been accepted for inclusion in Digitized Theses by an authorized administrator of Scholarship@Western. For more information, please contact tadam@uwo.ca, wlsadmin@uwo.ca.
The author of this thesis has granted The University of Western Ontario a non-exclusive license to reproduce and distribute copies of this thesis to users of Western Libraries. Copyright remains with the author.

Electronic theses and dissertations available in The University of Western Ontario’s institutional repository (Scholarship@Western) are solely for the purpose of private study and research. They may not be copied or reproduced, except as permitted by copyright laws, without written authority of the copyright owner. Any commercial use or publication is strictly prohibited.

The original copyright license attesting to these terms and signed by the author of this thesis may be found in the original print version of the thesis, held by Western Libraries.

The thesis approval page signed by the examining committee may also be found in the original print version of the thesis held in Western Libraries.

Please contact Western Libraries for further information:
E-mail: libadmin@uwo.ca
Telephone: (519) 661-2111 Ext. 84796
Web site: http://www.lib.uwo.ca/
NOTICE

The quality of this microfiche is heavily dependent upon the quality of the original thesis submitted for microfilming. Every effort has been made to ensure the highest quality of reproduction possible.

If pages are missing, contact the university which granted the degree.

Some pages may have indistinct print especially if the original pages were typed with a poor typewriter ribbon or if the university sent us a poor photocopy.

Previously copyrighted materials (journal articles, published tests, etc.) are not filmed.

Reproduction in full or in part of this film is governed by the Canadian Copyright Act, R.S.C. 1970, c. C-30. Please read the authorization forms which accompany this thesis.

THIS DISSERTATION HAS BEEN MICROFILMED EXACTLY AS RECEIVED

AVIS

La qualité de cette microfiche dépend grandement de la qualité de la thèse soumise au microfilmage. Nous avons tout fait pour assurer une qualité supérieure de reproduction.

S'il manque des pages, veuillez communiquer avec l'université qui a conféré le grade.

La qualité d'impression de certaines pages peut laisser à désirer, surtout si les pages originales ont été dactylographiées à l'aide d'un ruban usé où si l'université nous a fait parvenir une photocopie de mauvaise qualité.

Les documents qui font déjà l'objet d'un droit d'auteur (articles de revue, examens publiés, etc.) ne sont pas microfilmés.

La reproduction, même partielle, de ce microfilm est soumise à la Loi canadienne sur le droit d'auteur, SRC 1970, c. C-30. Veuillez prendre connaissance des formules d'autorisation qui accompagnent cette thèse.

LA THÈSE A ÉTÉ MICROFILMÉE TELLE QUE NOUS L'AVONS RECUE
PARENT CONTROL AND JOINT VENTURE SUCCESS:
THE CASE OF MEXICO

by
Jean-Louis Schaan

School of Business Administration

Submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy

Faculty of Graduate Studies
The University of Western Ontario
London, Ontario
April, 1983

ABSTRACT

Managers in multinational companies face a strategic dilemma. They generally want to have full management control over their foreign subsidiaries, at a time when host governments, responding to social and economic forces in their own countries, are enforcing more and more arrangements which require sharing ownership and control.

By comparing successful and less successful joint ventures operating in Mexico, this dissertation attempts to provide empirical evidence on the relationship between parent control and joint venture success. More specifically, it examines how managers in parent companies ensure that their joint ventures meet their expectations.

The study focussed on ten joint ventures (five in petrochemicals, two in hotel management, one in aluminum, one in telecommunications, one in food products and one in the construction industry). The data was collected through in-depth interviews both at the joint venture and the parent level.

This study shows that what managers in parent companies decide to control and how they control it has an impact on joint venture success. Parent companies were able to turn joint ventures around by creating a fit between their criteria of joint venture success, the activities or decisions they controlled and the mechanisms they used to exercise.
Further, this fit was achieved in successful joint ventures while it was not achieved in unsuccessful joint ventures.

Then, the study gives evidence on how managers in parent companies manage the control process. It identifies factors which influence the selection of activities or decisions to control and of control mechanisms. Parent companies were found to exercise control through formal devices such as technology and management contracts on the board of directors, through staffing, and more importantly through manipulating the context within which decisions are made and activities carried out.

An understanding of these processes, and of their evolution over time, enabled the researcher to form a set of guidelines which might be helpful to multinational company managers in deciding how to exercise control, if the probability of joint venture success is to be maximized.
ACKNOWLEDGEMENTS

I wish to express my gratitude to the many people who have contributed to the successful completion of this dissertation.

I am grateful to the managers, bankers, and government officials who freely gave up of their valuable time to share with me their experiences and views on joint ventures. Without their collaboration this thesis would have never been possible.

I am also indebted to the Business Policy area group at the University of Western Ontario, Nick Fry, Donald Thain, Harold Crookell, Tom Poynter, Rod White and Leonard Wrigley (now in Cork, Ireland). They provided me with a stimulating and supportive environment all along my doctoral studies.

I am especially indebted to J. Peter Killing, my thesis supervisor, for his help and encouragement during the whole process. I have learned from him the true meaning of the verb to teach. J. Peter Killing has been an excellent teacher for me and I will never thank him enough for his contribution to my own development.

Special thanks to Lambros Kavaxis, a fellow student at Western, and to Lew Johnson, a colleague at Queen's, for showing interest in my work.
and providing useful criticism. Thanks also to Pat Cooper for helping me with my English and showing enthusiasm in doing it inspite of a heavy workload. Thanks to Suzanne Rivard for reading parts of my first draft.

Funds for the field research were generously provided by the Center for International Business and the Plan for Excellence (The University of Western Ontario). Without their assistance the research would not have been so comprehensive.

A special mention of gratitude is given to Louise Nollet who spent many hours typing this dissertation. She did a masterful job. Also, I gratefully thank Ms. Chris MacNeil for her assistance and patience in finalizing this dissertation.

I would like to express my gratitude to my parents, who taught me to take risks and to live with my own decisions.

My utmost appreciation, however, goes to my wife Marjolaine. She shared with me my life as a doctoral student to the fullest. She has been a continual source of motivation and inspiration.

This thesis is dedicated to you, Marjolaine.
TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter/Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>CERTIFICATE OF EXAMINATION</td>
<td>ii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>v</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF APPENDICES</td>
<td>xiv</td>
</tr>
<tr>
<td>CHAPTER I - INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>1. The Research Problem</td>
<td>1</td>
</tr>
<tr>
<td>2. Objectives of the Study</td>
<td>5</td>
</tr>
<tr>
<td>3. Scope of the Study</td>
<td>6</td>
</tr>
<tr>
<td>4. Key Definitions</td>
<td>7</td>
</tr>
<tr>
<td>5. Plan of the Study</td>
<td>8</td>
</tr>
<tr>
<td>FOOTNOTES</td>
<td>10</td>
</tr>
<tr>
<td>CHAPTER II - LITERATURE REVIEW</td>
<td>11</td>
</tr>
<tr>
<td>1. Relationship between Control and Success</td>
<td>12</td>
</tr>
<tr>
<td>2. JV Success and its Determinants</td>
<td>22</td>
</tr>
<tr>
<td>2.1 Financial-based measured of JV success</td>
<td>23</td>
</tr>
<tr>
<td>2.2 JV survival as a proxy for JV performance</td>
<td>31</td>
</tr>
<tr>
<td>2.3 Subjective measure</td>
<td>34</td>
</tr>
<tr>
<td>3. Parent Control in JVs</td>
<td>34</td>
</tr>
<tr>
<td>3.1 Absolute control</td>
<td>35</td>
</tr>
<tr>
<td>3.2 Amount of control</td>
<td>39</td>
</tr>
<tr>
<td>4. The Concept of Control</td>
<td>48</td>
</tr>
<tr>
<td>5. Summary</td>
<td>58</td>
</tr>
<tr>
<td>FOOTNOTES</td>
<td>60</td>
</tr>
<tr>
<td>CHAPTER III - RESEARCH METHODOLOGY</td>
<td>63</td>
</tr>
<tr>
<td>1. Factors which Influence the Nature of the Research</td>
<td>63</td>
</tr>
<tr>
<td>2. Operational Definitions</td>
<td>68</td>
</tr>
<tr>
<td>3. Intended Research Design</td>
<td>68</td>
</tr>
<tr>
<td>4. Actual Design</td>
<td>71</td>
</tr>
<tr>
<td>4.1 Familiarization with the Mexican environment</td>
<td>71</td>
</tr>
</tbody>
</table>
4.2 Outside constraints modifying the intended design ........................................ 74
5. The Sample ......................................................................................................... 77
6. Data Collection .................................................................................................. 77
7. Data Analysis ..................................................................................................... 81
8. Redefining the Research Problem ..................................................................... 83
9. Summary ............................................................................................................ 87
FOOTNOTES ........................................................................................................... 88

CHAPTER IV - THE EVIDENCE ............................................................................ 89
1. JVs which Have Been Turned Around ............................................................... 90
2. Successful JVs which Have Been Previously Unsuccessful ................................ 104
3. Unsuccessful JVs ................................................................................................ 127
4. Successful JVs .................................................................................................... 151
5. Summary ............................................................................................................ 180

CHAPTER V - THE DEPENDENT VARIABLE: JOINT VENTURES SUCCESS .......... 182
1. Characteristics of the Managers' Criteria of JV Success ................................... 194
2. Criteria of JV Success and Managers' Perspective .......................................... 201
3. Similarities and Differences in the Criteria of Success .................................... 205
4. Instability of the Success Criteria over Time .................................................. 213
5. Joint Determination of Parents' Expectations and JVs' Objectives ................. 218
6. Parents' Interests versus JV's Interests .............................................................. 222
7. Summary ............................................................................................................ 226

CHAPTER VI - PARENT CONTROL IN JOINT VENTURES ................................. 228
1. Control Mechanisms Used by Parent Companies ............................................ 229
2. Positive and Negative Control .......................................................................... 244
3. Towards a Better Understanding of the Concept of Control ............................ 251
4. Summary ............................................................................................................ 262
FOOTNOTES ........................................................................................................... 267

CHAPTER VII - RELATIONSHIP BETWEEN PARENT CONTROL AND JV SUCCESS .......................................................... 269
1. A Framework to Analyze the Relationship Between Parent Control and JV Success .......................................................... 270
2. Managing the Control Process .......................................................................... 278
  2.1 Deciding what to control ............................................................................. 279
  2.2 Deciding how to control ............................................................................ 291
  2.3 Monitoring the control process ................................................................... 298
3. Triggering Mechanisms to Changes in Parent
Control Patterns .................................................. 300
3.1 Presentation of the triggering mechanisms ............ 306
3.2 Analysis and implications .................................. 307
4. Summary ......................................................... 313
FOOTNOTES ......................................................... 315

CHAPTER VIII - CONCLUSIONS AND IMPLICATIONS ........ 316
1. Summary of the Major Findings ......................... 316
2. Implications for Managers .............................. 325
3. Implications for Researchers ......................... 333
4. Areas for Future Research ............................ 342
5. Summary ......................................................... 344

APPENDIX 1. PARENT QUESTIONNAIRE ......................... 346

APPENDIX 2. JOINT VENTURE QUESTIONNAIRE ............. 352

BIBLIOGRAPHY ..................................................... 358

VITAE ............................................................. 364
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>FIGURE</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>II-1</td>
<td>Conceptual and operational approaches to parent control and JV success</td>
<td>11</td>
</tr>
<tr>
<td>II-2</td>
<td>A model summarizing the relationship between parent control and JV success</td>
<td>59</td>
</tr>
<tr>
<td>IV-1</td>
<td>Steps in the approval of AP's strategic plan by the MNC parent</td>
<td>110</td>
</tr>
<tr>
<td>IV-2</td>
<td>PAC's reporting relationship to its US parent</td>
<td>123</td>
</tr>
<tr>
<td>IV-3</td>
<td>Reporting relationships to the parents, JV, TOP</td>
<td>164</td>
</tr>
<tr>
<td>VI-1</td>
<td>Two ways of exercising control over a JV</td>
<td>247</td>
</tr>
<tr>
<td>VI-2</td>
<td>Traditional model describing the relationship between control and performance</td>
<td>265</td>
</tr>
<tr>
<td>VI-3</td>
<td>Revised model of parent control in joint ventures</td>
<td>266</td>
</tr>
<tr>
<td>VII-1</td>
<td>Framework of the relationship between parent control and joint venture success</td>
<td>271</td>
</tr>
<tr>
<td>VII-2</td>
<td>Factors influencing the decisions of what to control in JVs</td>
<td>282</td>
</tr>
<tr>
<td>VII-3</td>
<td>Factors influencing the selection of control mechanisms</td>
<td>294</td>
</tr>
</tbody>
</table>
# LIST OF TABLES

<table>
<thead>
<tr>
<th>TABLE</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>II-1</td>
<td>Studies on the relationship between control and success</td>
<td>13</td>
</tr>
<tr>
<td>II-2</td>
<td>Joint venture performance (Management's assessment)</td>
<td>14</td>
</tr>
<tr>
<td>II-3</td>
<td>Financial-based measures of JV success</td>
<td>24</td>
</tr>
<tr>
<td>II-4</td>
<td>Control mechanisms in two streams of research in JVs</td>
<td>35</td>
</tr>
<tr>
<td>II-5</td>
<td>Concepts of control in the literature on JVs</td>
<td>49</td>
</tr>
<tr>
<td>II-6</td>
<td>The centralization scale</td>
<td>53</td>
</tr>
<tr>
<td>III-1</td>
<td>Circumstances in which high local partner control leads to JV success</td>
<td>64</td>
</tr>
<tr>
<td>III-2</td>
<td>Circumstances in which low local partner control leads to JV success</td>
<td>64</td>
</tr>
<tr>
<td>III-3</td>
<td>Local partner control and success of the JVs in the intended design</td>
<td>70</td>
</tr>
<tr>
<td>III-4</td>
<td>Characteristics of the joint ventures in the sample</td>
<td>78</td>
</tr>
<tr>
<td>IV-1</td>
<td>Parent control - JV NIL</td>
<td>91</td>
</tr>
<tr>
<td>IV-2</td>
<td>NIL net profits and growth in sales (million pesos)</td>
<td>96</td>
</tr>
<tr>
<td>IV-3</td>
<td>Parent Control - JV HAL</td>
<td>100</td>
</tr>
<tr>
<td>IV-4</td>
<td>Parent Control - JV AP</td>
<td>107</td>
</tr>
<tr>
<td>IV-5</td>
<td>Parent Control - JV PAC</td>
<td>118</td>
</tr>
<tr>
<td>IV-6</td>
<td>Parent Control - JV CT</td>
<td>129</td>
</tr>
<tr>
<td>IV-7</td>
<td>Parent Control - JV RUF</td>
<td>136</td>
</tr>
<tr>
<td>Page</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>IV-8</td>
<td>Parent Control - JV SON</td>
<td>144</td>
</tr>
<tr>
<td>IV-9</td>
<td>JV SON sales and net profits 1974-180 (in million pesos)</td>
<td>146</td>
</tr>
<tr>
<td>IV-10</td>
<td>Parent Control - JV QA</td>
<td>154</td>
</tr>
<tr>
<td>IV-11</td>
<td>Parent Control - JV TOP</td>
<td>160</td>
</tr>
<tr>
<td>IV-12</td>
<td>Parent Control - JV IRSA</td>
<td>168</td>
</tr>
<tr>
<td>V-1</td>
<td>Joint venture success - JV IRSA</td>
<td>183</td>
</tr>
<tr>
<td>V-2</td>
<td>Joint venture success - JV PAC</td>
<td>184</td>
</tr>
<tr>
<td>V-3</td>
<td>Joint venture success - JV NIL</td>
<td>185</td>
</tr>
<tr>
<td>V-4</td>
<td>Joint venture success - JV AP</td>
<td>186</td>
</tr>
<tr>
<td>V-5</td>
<td>Joint venture success - JV SON</td>
<td>187</td>
</tr>
<tr>
<td>V-6</td>
<td>Joint venture success - JV HAL</td>
<td>188</td>
</tr>
<tr>
<td>V-7</td>
<td>Joint venture success - JV CT</td>
<td>189</td>
</tr>
<tr>
<td>V-8</td>
<td>Joint venture success - JV QA</td>
<td>190</td>
</tr>
<tr>
<td>V-9</td>
<td>Joint venture success - JV TOP</td>
<td>191</td>
</tr>
<tr>
<td>V-10</td>
<td>Joint venture success - JV RUF</td>
<td>192</td>
</tr>
<tr>
<td>V-11</td>
<td>Joint venture success matrix: JVs' position in 1980</td>
<td>193</td>
</tr>
<tr>
<td>V-12</td>
<td>Types of criteria of success used by MNC and local parents</td>
<td>198</td>
</tr>
<tr>
<td>V-13</td>
<td>Criteria of JV success used by the JV general managers</td>
<td>203</td>
</tr>
<tr>
<td>V-14</td>
<td>Differences in the parents' criteria of success</td>
<td>206</td>
</tr>
<tr>
<td>V-15</td>
<td>Time orientation of the parties involved in the JVs as reflected in their main criteria of success</td>
<td>210</td>
</tr>
<tr>
<td>V-16</td>
<td>Number of Board meetings per year</td>
<td>212</td>
</tr>
</tbody>
</table>
VI-1 Control mechanisms used by parent companies to influence the management of joint ventures ........................................ 231
VI-2 Nationality and company origin of the joint venture general managers .................................................. 237
VI-3 Positive and negative control mechanisms .......................... 249
VII-1 Parents overall criteria of success and key success areas ................................................................. 286
VII-2 Conceptual partitioning of parent control in a JV ............................................................. 291
VII-3 Changes in parent control patterns in the sample JVs ...................................................... 300
VII-4 Triggering mechanisms to changes in parent control patterns .................................................. 303
VIII-1 Elements in constructing an index of JV success ................................................................. 337
# LIST OF APPENDICES

<table>
<thead>
<tr>
<th>APPENDIX</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Parent Questionnaire</td>
<td>346</td>
</tr>
<tr>
<td>2</td>
<td>Joint Venture Questionnaire</td>
<td>352</td>
</tr>
</tbody>
</table>
CHAPTER I - INTRODUCTION

This research investigates the relationship between parent control and joint venture (JV) success. The purpose of this chapter is to introduce the research problem addressed in the dissertation. It begins with an explanation of the rationale for the study. Then, it presents the specific objectives and the scope of the study. The chapter concludes with an outline of the dissertation.

1. The Research Problem.

Growing concern with issues of national sovereignty and economic independence have led governments in various countries to impose restrictions on the ownership and control of foreign investments. Countries such as India, Mexico, Pakistan, Nigeria have regulated foreign investments for a considerable time. Typically, along with shared ownership requirements, restrictions have been placed on the composition of the boards of directors, the number of nationals occupying managerial positions, the use of local inputs, profit repatriation or export requirements.

The multinational corporations (MNCs) response to this trend has been extremely cautious. As Stopford and Haberich observed:

The low number of affiliates in Japan, Spain and Mexico suggests that the countries pay more penalty for
insistance on the policies in that firms have refused to consider investments on the available terms (1).

Two reasons may account for the MNCs' negative response to host government pressures. First, managers show a natural mistrust towards any form of government intervention which limits their freedom of manoeuvre. Second, managers have mixed feelings towards joint ventures (JVs). In general JVs are seen as inflexible, difficult to manage and prone to conflicts. A Conference Board study of twenty MNCs describes the managers' attitude toward JVs in the following terms:

Most American companies report that they generally resist joint ventures and go to great pains to avoid them. They will sometimes abandon a market rather than accept a joint venture arrangement, seem to be exceedingly uncomfortable with joint ventures once they get into them, and are adamant in negotiations about not losing majority shares(2).

Such attitudes, however, are not shared by all managers. From his study of the JV process in India and Pakistan(3) and in Mexico(4), Tomlinson found that the negative attitudes towards JVs mostly prevailed in firms which had least experience with JVs.

Whether they like JVs or not, managers agree that a major area of concern is control of the JV. For instance, in his study, Tomlinson(5) found that 61.5% of the British firms with JVs in India and Pakistan believed that effective control of the JV was necessary or desirable while only 17% of the firms believed that it was unnecessary. The
managers' concern with control may be explained by their fear to lose control of the JV or by the fact that they see control as a difficult task to perform. In the words of one manager interviewed in this study:

We still do not know how to control our joint ventures. Wholly-owned subsidiaries are easy because they fit the normal system. Joint ventures don't.

Therefore control over JVs is seen as a problem by managers in parent companies. In today's world there are no signs that governments are likely to reverse the trend towards increasing local control over foreign investments. In the context of an increasingly interventionist climate, what should MNC managers do? Should they resist and avoid JVs in countries imposing localization requirements or should they accept these requirements? If so under what circumstances?

One way managers can decide is by assessing the control they need over the JV. Control is the process by which a parent company assures that the JV is managed in the parent's interests. Assuming that entering a JV entails a loss of control, by assessing how much control over the JV they need in order to maximize the chances of JV success, and comparing it to what they can expect to have, managers in parent companies would be in a better position to determine the attractiveness of a particular JV.

Previous research on JVs is of little help in addressing the issues
discussed above. Although a number of studies have investigated the issue of control in JVs (6), the meaning of the concept is somewhat confused by the widely different existing approaches to the concept: ownership, legal control, locus of decision making, staffing. Further, the researcher has found only one study (by J. P. Killing) which investigates the relationship between parent control and JV performance. In his study, Killing (7) shows that control is an important determinant of JV success. His findings indicate that JVs which are controlled by one parent (dominant parent JV) are more successful than JVs in which the two parents are involved (shared management JVs). Although Killing's study represents a significant contribution to our understanding of how control relates to JV performance, it needs further refinement to help managers in MNCs in deciding when they need a high (or low) degree of control.

Given that control is an important issue for managers and that there is evidence that control is related to JV success, a study which attempts to improve our understanding of the relationship between parent control and JV success represents a useful contribution to the existing literature on JVs.

Traditionally, the emphasis has been on the amount of control exercised by the parent companies. As a result, this study was originally undertaken to address the following problem:
to identify under what circumstances MNC managers should be prepared to allow their local partner a high (or low) degree of control over the management of the JVs in order to maximize the chances of JV success.

However, as the empirical evidence was collected and managerial issues were more clearly focussed, the research problem was redefined:

what do managers of parent companies need to control, and what are the mechanisms for control that lead to JV success.

The focus changed from the amount of control (high/low) to the nature and managerial processes involved. This is in direct contrast to previous studies which are examined later.

2. Objectives of the Study.

This study investigates and provides empirical evidence on the management of JVs in a country where requirements for local ownership are enforced. The major objective is to develop an understanding of how parent companies can promote or protect their interests in a JV, in particular when they are in a minority position.

In order to meet this objective the following subsidiary objectives have been set:
1. To identify how managers measure JV success.

2. To identify mechanisms used by managers in parent companies to control their JVs.

3. To describe and develop an understanding of the relationship between parent control and JV success.

3. Scope of the Study.

The findings presented in this dissertation are based on a clinical study of ten JVs operating in Mexico. This section briefly outlines the reasons for adopting a clinical approach, choosing Mexico as the research site, and collecting the data from ten JVs.

A clinical approach, based on personal interviews with managers, was adopted because of the exploratory nature of the study. The dissertation attempts to provide elements to develop a theory of parent control in JVs. In that sense, it is an exercise in vocabulary which requires an in-depth understanding of the concepts involved. Given the limited current understanding of the concepts of control and JV success, the researcher decided that a clinical approach was the best way of obtaining in-depth data.
Mexico was selected for the following reasons:

1. MNCs are not permitted a majority equity position in major
   industrial or service companies.
2. In 1980 Mexico was considered an attractive growth economy by
   MNCs.
3. Mexico was often used by MNCs as the initial entry into the
   South and Central American business regions.

Limiting this study to Mexico assured control of certain economic,
political and cultural variables. This design however, does limit the
validity of the results to similar situations in other countries.

Consistent with the exploratory nature of this study, only ten JVs were
investigated in-depth. To increase the homogeneity of the data mainly
North American parents were examined. Only one of the JVs had a
European MNC parent. Thus, it was possible to reduce the impact of
cultural differences in attitudes and in management approaches on the
findings.

4. Key Definitions.

The key terms used in this study have been defined as follows:

Multinational corporation: A multinational corporation is a firm with
direct investment in at least one country in addition to the one in which its headquarters are located.

**Local parent**: The terms local parent or local partner designate the Mexican side of a JV. The local parent can be a Mexican national, a group of Mexican nationals, or a Mexican company.

**Joint venture**: A JV is an organizational arrangement involving a multinational corporation and a local parent. Each parent owns a portion of the equity and, consistent with previous research on JVs, no parent holds more than 90% of the equity.

**Control**: Control refers to the process through which a parent company assures that the way a JV is managed conforms to its own interests.

**JV success**: JV success refers to a JV's ability to meet its parents' expectations.

5. **Plan of the Study**.

The dissertation is articulated around three broad stages. It begins with a discussion of the problem, the literature pertaining to this problem and the research methodology. Then, it presents the empirical evidence. Finally, it presents the major findings and their implications.
Chapter II contains a review of the literature dealing with parent control and JV success.

Chapter III presents the research methodology, the research design, and the sample.

Chapter IV presents the evidence in the form of ten case studies.

Chapter V contains a discussion of the criteria used by managers in evaluating JV success.

Chapter VI deals with the issue of parent control in JVs. It presents a diversity of mechanisms used by managers in parent companies to exercise control over JVs and it draws some conceptual implications for our understanding of control.

Chapter VII presents a framework, derived from an analysis of the data, which has been useful to understand the relationship between parent control and JV success. Also, it describes and analyzes the management of the control process.

Finally, chapter VIII presents a summary of the major findings of the study and their implications for managers and researchers.
FOOTNOTES


CHAPTER II - LITERATURE REVIEW

Although managers consider control an important determinant of JV success, researchers have devoted little attention to the link between parent control and JV success. This chapter reviews the ground covered by the existing body of knowledge concerning the relationship between parent control and JV success (refer to Figure 2.1 for a summary of the issues covered).

Figure 2.1: Conceptual and operational approaches to parent control and JV success.

<table>
<thead>
<tr>
<th>CONCEPTS</th>
<th>Parent Control</th>
<th>Joint Venture Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONCEPTUAL APPROACHES</td>
<td>Absolute Control</td>
<td>- Exercise of authority</td>
</tr>
<tr>
<td></td>
<td>Amount of Control</td>
<td>- Involvement and Command</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Influence over behaviour</td>
</tr>
<tr>
<td>OPERATIONAL MEASURES</td>
<td>Ownership</td>
<td>financial measures</td>
</tr>
<tr>
<td></td>
<td>Contract</td>
<td>concept of JV survival</td>
</tr>
<tr>
<td></td>
<td>Locus of decision-making</td>
<td>management judgment</td>
</tr>
<tr>
<td></td>
<td>Staffing</td>
<td></td>
</tr>
</tbody>
</table>

11
The limited empirical evidence available suggests that control is indeed an important factor in explaining JV success. However, the validity of this evidence is affected by an unclear and partial understanding of the concepts involved. As a result, this chapter examines three measures of JV success used in previous studies: financial measures, the concept of JV survival and subjective measures. Then, it examines two clearly discernible approaches to the concept of control in JVs. The first one views control as an absolute concept: a parent has or does not have control (control as an either-or proposition). In contrast, the second approach views control in relative terms: it is concerned with the amount of control that a parent has.

Finally, the chapter attempts to clarify the meaning of the concept of control by drawing upon other streams of research. Specifically, it examines three different treatments of the concept: control as the exercise of authority, control in terms of involvement and command, and control as influence over behaviour.

1. **Relationship between Control and Success.**

The studies discussed in this section, and summarized in Table II.1, suggest that:

1. There is a relationship between parent control and JV success.

2. The relationship is an important one, i.e., that control plays an
important role in explaining JV success.

Table II.1: Studies on the relationship between control and success.

<table>
<thead>
<tr>
<th>Parent Control</th>
<th>Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>KILLING</td>
<td>- parent involvement in decision-making</td>
</tr>
<tr>
<td></td>
<td>- JVGM's judgment</td>
</tr>
<tr>
<td></td>
<td>- JV liquidation or reorganization</td>
</tr>
<tr>
<td>JV Studies</td>
<td>- proportion of JV's life under foreign-appointed JVGM</td>
</tr>
<tr>
<td></td>
<td>- JV's contribution to multinational network.</td>
</tr>
<tr>
<td>RAFII</td>
<td>- involvement and command</td>
</tr>
<tr>
<td></td>
<td>- operating margins</td>
</tr>
<tr>
<td>SKINNER</td>
<td>- locus of decision-making</td>
</tr>
<tr>
<td>Foreign Subsidiary Studies</td>
<td>- financial performance</td>
</tr>
<tr>
<td>SIM (and others reported by Sim)</td>
<td>- managerial effectiveness</td>
</tr>
</tbody>
</table>

The only apparent exploration of the relationship between Parent Control and JV Success is a study by Peter Killing, entitled Strategies for Joint Venture Success (1). In his study of 37 international JVs between North American and Western European partners, Killing observed and analyzed the relationship between the role of parent companies in the management of JVs and JV performance. Killing classified JVs into three categories:
- dominant parent: One parent plays a dominant role and the other(s) a passive role. The main characteristics of these JVs are that they are managed as if they were wholly-owned subsidiaries and that their board plays a ceremonial role.

- shared management: "Both parents play a meaningful managerial role. The board of directors, comprised of executives from each parent, has a real decision-making function. Functional personnel are often drawn from both parents." (2)

- Independent: Both parents have little involvement.

Killing found that dominant parent JVs outperform shared management JVs while independent JVs are the most successful (see Table II-2).

**Table II-2**: Joint venture performance (management's assessment).

<table>
<thead>
<tr>
<th>JV Type</th>
<th>Performance</th>
<th>Liquidated or Reorganized</th>
<th>Number of Ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poor</td>
<td>Satisfactory</td>
<td>Good</td>
</tr>
<tr>
<td>Dominant Parent</td>
<td>.23%</td>
<td>23%</td>
<td>54%</td>
</tr>
<tr>
<td>Shared Management</td>
<td>.55%</td>
<td></td>
<td>25%</td>
</tr>
<tr>
<td>Independent</td>
<td>25%</td>
<td>0%</td>
<td>75%</td>
</tr>
<tr>
<td></td>
<td>37%</td>
<td>22%</td>
<td>42%</td>
</tr>
</tbody>
</table>


By devising a typology of JVs, based on control, which is associated
with differences in performance between the three categories (dominant, shared, independent), Killing has been able to show that not all JVs exhibit the same propensity to fail. Therefore control is an important variable in discriminating between successful and less successful JVs.

Clearly, Killing's study constitutes a significant contribution to our understanding of parent control in JVs. However, there are some limitations inherent to the measure of control used. Killing measured control by determining how much influence each parent had on nine decision-making areas. For each decision, managers had to indicate whether it was made by one or the other parent alone, by both parents or by the JVGM. Then, an overall score was calculated for each JV and the score determined into which category the JV would fall. The first problem with this measure lies with the arbitrary selection of nine decision-making areas and applying them to all JVs. This researcher believes that a parent has control when it controls important decisions. Of the nine decision-making areas retained by Killing, not all are equally important. Further what may be important in one case may not be in another. The second problem is that Killing's operationalization of control does not capture the idea of influence over decisions because it simply identifies who makes the decisions (parent A, parent B, both or JVGM). In fact, making decisions and influencing them are two different things. One can influence a decision without making it. As a result the researcher believes that other dimensions need to be identified to capture the concept of
control.

In measuring JV performance, Killing found that financial indicators are not always appropriate to decide how well a JV is doing. In some cases, where a parent sold products to, or bought products from, the JV, the parent was not concerned with the JV's profits and profitability. Its major concern was the price at which it would sell or buy from the JV. To overcome this problem Killing measured performance in two ways:

1- a subjective measure by asking the JVGM to rate on a five-point scale how well his company was doing (1: extremely poorly to 5: extremely well).
2- an objective measure based on whether the JV had been liquidated or reorganized due to poor performance.

The advantages of these two measures are that they are easy to obtain and that they attempt to overcome the limitations of the financial measures. However, they have their own disadvantages. The judgmental measure, on the one hand, can be biased by the respondent, and it does not indicate the criteria on which the judgment is based. The objective measure, on the other hand, is a good indicator of JV failure, but it does not discriminate between JVs which are doing poorly but are not reorganized or liquidated, and JVs that are doing well.

Given the above limitations, the question to be answered is: if financial criteria of performance are not appropriate to measure the
degree of success of a JV, what would be a better indicator? In other words, on what basis do managers form a judgment when allocating a JV in the Poor-Satisfactory-Good performance categories?

Another study which suggests that parent control is an important determinant of JV success is Rafii's doctoral thesis dealing with JVs in Iran (3). Rafii's analysis of the impact of foreign control on the transfer of technology to Iranian JVs led him to the following observation:

... the divergent objectives pursued by joint venture partners lead to the emergence of conflicts in the division of costs and rewards. The manner in which these conflicts are resolved, and therefore, the ultimate distribution of costs and rewards, depend on the relative control possessed by each partner over joint venture policies and operations. (4)

Rafii contends that the difference in the parents' objectives is that the foreign partner is more likely to aim for maximizing the net benefits to the multinational network as a whole, while the local partner is more likely to aim for maximizing the returns to the JV. Using the matched-pairs technique and a qualitative analysis of the data collected in 35 JVs, Rafii found evidence that:

the foreign partner generally seeks to limit the extent of local manufacture and indigenization of management, and strives to charge the joint venture the maximum possible for the goods, know-how, and services supplied. (5)

Rafii's observation that foreign parents use transfer prices to
maximize profits on an overall multinational basis confirms Kitting's conclusion that indicators based on JV profits are not always appropriate to measure performance. More importantly, Rafii's findings suggest that MNC managers measure JV success on the basis of the JV's contribution to the overall multinational network. This contribution is measured by weighing the costs and benefits of the investment to the parent, and Rafii found that the allocation of costs and benefits is a function of the parents' relative control. In other words, Rafii contends that JV success depends upon parent control.

This contention, however, requires an important qualification in that it is based on an inappropriate measure of control. Rafii distinguishes between contractual and managerial control. The problem lies in the following operational definition of managerial control:

The proportion of a joint venture's operating life that has been spent under a foreign-appointed managing director was used as a proxy for the degree of foreign managerial control over the joint venture. (6)

The limitations of this measure are twofold. First, since Rafii does not give a definition of control from which the measure is derived, it is difficult to evaluate the proxy itself. Second, in the analysis of his data, Rafii finds that there are other important channels (such as the board of directors) through which control can be exercised, suggesting himself that his measure fails to identify important dimensions of the concept of control.
Both studies on JVs reviewed above suggest the existence of a relationship between parent control and JV success. However, both studies show that better definitions and better measures of the two concepts of JV success and parent control are needed if our understanding of their relationship is to be improved.

Further support for the importance of the relationship between control and success is found in a study by Wickham Skinner (7) dealing with the management of American operations in developing countries. Although Skinner's study is not focused on JVs, its findings with respect to the issue of parent control are relevant here.

Skinner identified the following as the key issues in headquarters management:

1- the issue of home office control: the amount of control, the type of control and the areas in which control is used, ranging from the areas of basic policy through financial and equipment decisions down to the operating decisions at the local plant
2- the issue of office support: the type, amount and nature of the support and contribution offered by the home office staff
3- the nature and type of the communication between the home office and the overseas plant (8).

Control was singled out as the most important problem area in the relationships between headquarters and overseas managers because it led to many conflicts. Skinner explains the "strained and difficult" relationships between headquarters and overseas managers on the basis that MNCs tend to apply a headquarters' philosophy of control to the
way they manage all their subsidiaries, rather than to try to understand how much control is required for each subsidiary. He argues that it would be more appropriate to adapt the control process to the specific requirements of each subsidiary.

Skinner recommends that managers identify the key factors which have an influence on the operating margins and tailor the control mechanisms to these factors. For instance:

If a company operated in an industry which involved heavy materials moving and expensive logistics and inventory, a close control from headquarters over materials handling methods and supply procedures might play a key role in influencing its success (9).

In order to implement this recommendation, an understanding of the relationship between control and success is critical before a decision about what to control and how to control is made. Skinner, however, does not bring any evidence to show what control mechanisms are appropriate to promote the achievement of a given set of success criteria. In other words, he does not show how the two concepts of parent control and success relate to each other. His conclusions (examined in detail in section 3) are normative in nature and lack support, so more data is required before more definitive statements can be made regarding the way control needs to be exercised by headquarters to make a subsidiary more successful.

Various attempts have been made by researchers in International Business to test the relationship between parent control and subsidiary success. The question typically addressed has been whether high or low
centralization in decision-making leads to higher subsidiary performance. Sim (10) reports the widely conflicting results coming from that stream of research in a study where he attempted to determine "the extent and pattern of decentralization of authority in policy-making in the Malaysian subsidiaries":

... while Franko found no apparent correlation between levels of policy standardization and guidance and any measure of success, Negandhi found high correlation between decentralization and management effectiveness... Brooke and Remmers' findings of tight control over finance was at variance with that of Stewer's, which reported that control over finance, pricing and export was not. (11)

Sim's own findings suggest that the more decentralized firms tend to be the more successful, but this does not put an end to the debate. Further tests are needed, using better measures of the two concepts. Moreover, those studies deal with wholly-owned subsidiaries so no evidence is available in the case of JVs. The present research attempts to bring more light to the studies investigating the relationship between parent control and subsidiary success by adding data on JVs.

In summary the studies examined in this section suggest the following:

1- That there is a relationship between parent control and JV success (Killing, Rafii).

2- That the relationship between these two variables is an important one (Killing, Rafii, Skinner).
3. That there is no single appropriate measure of JV success available. Killing suggests that financial criteria are not always applicable. Rafii confirms Killing’s observation that the parent companies (MNC vs local partner) may use different criteria of success.

4. That more work is required to arrive at a satisfactory operational definition of control. Killing used a very broad measure which does not reflect the way control is exercised, while Rafii just considered one control mechanism.

The above observations reinforce the need for research such as was undertaken in the present dissertation. In addition, the limitations identified in the areas of conceptual and operational definitions of parent control and JV success suggest that before a study of the relationship between these two variables is undertaken, a more precise understanding of each variable is required. As a result, in the following sections of this chapter, studies dealing with JV success and parent control in JVs are presented in turn.

2. JV Success and its Determinants.

This section discusses prior research examining JV success. The emphasis is on the presentation and analysis of the operational definitions of the concept of JV success used in those studies. At the same time, the variables other than parent control hypothesized by previous researchers to account for differences in JV success are
examinined, as is their relationship to JV success. Three broad classes of measures of JV success have been identified in the literature:

- measures based on financial information,
- measures based on the concept of JV survival,
- measures based on the subjective assessment of the JV's general manager (JVGM).

Studies pertaining to each of these classes are reviewed.

2.1 Financial-based measures of JV success.

Measures of JV success of a financial nature have been used in three studies comparing the performance of JVs to that of another group of firms. (Refer to Table II-3 for a summary)

In a study comparing the performance of 28 JVs with American investment to 28 wholly-owned Mexican firms - all operating in the Monterrey area - Good (12) attempted to identify the variables which discriminate between successful and less successful firms in each category. Profitability, growth and capital intensity were used to compare the performance of the firms in the two groups. Profitability was measured in terms of return on equity and return on investment, growth was measured in terms of growth in profits, sales, and total assets, and capital intensity was measured by the ratio of fixed assets to total employment.
Table II-3: Financial-based measures of JV success.

GOOD
- Profitability: ROI, ROE
- Growth: profits, sales, total assets
- Capital intensity: total employment/total assets

RENFROMTH
- Total sales
- Cost of goods sold
- Net profit
- Return on assets
- Return on investment
- Total assets
- Total liabilities
- Total capital
- Working capital

DANG
- return on sales
- return on assets
- return on equity
- asset turnover
- growth in sales
- value added
- productivity

The second study using a financial-based measure of JV success is that of William Renforth (13). Renforth's purpose was to compare the operating characteristics of two types of joint ventures: joint ventures involving a U.S. firm and a family firm partner (JVFF), and joint ventures involving a U.S. firm and a non-family firm partner (JVNFF). He compared the performance of JVs in the two groups along nine performance characteristics: total sales, cost of goods sold, net profit, return on assets, return on investment, total assets, total
liabilities, total capital and working capital. The data was obtained from the JVGMs, who were asked to use 1968 as a base year (1968=100) and then to evaluate the percentage change from the base year over a five-year period for each of the indicators retained.

Finally, in a study comparing JVs and wholly-owned subsidiaries operating in Taiwan and the Philippines, Dang (14) examined the relationships between ownership and control and between ownership and performance.

To measure performance, Dang used the following indicators: return on sales, return on assets, return on equity, asset turnover, growth in sales and a value added and productivity index. In order to be able to make comparisons of performance across industries and across countries, Dang expressed the performance indicators as % deviation from local industrial norms. For firm i:

\[
\text{% deviation} = \frac{\text{Firm } i \text{ data} - \text{Industry average}}{\text{Industry average}}
\]

Although researchers in the above three studies drew their measures of performance from the same original data bases (balance sheets, income statements etc.), it is clear that the actual measurement processes they followed differ markedly. Good used the actual numbers as they appeared in the financial statements, Renforth asked the JVGMs to transform the raw data from the statements into percentage changes over
a 5-year period, and Dang expressed the same raw data as percentage deviation from an industry-average. Renforth's objective in selecting his measure of performance was to increase the manager's willingness to supply information which is often considered of a confidential nature—particularly in LDCs. Dang, on the other hand, realized that there were problems in comparing performance measures of the type used by Good across industries and across countries. As a result he made the adjustment described earlier.

Each of the three measures has its own advantages and disadvantages, but they also have limitations which are common.

First of all, none of the authors gives a definition of performance from which the actual dimensions (growth, profitability, etc.) are derived. The implicit assumption that they all make is that the measures they use are different dimensions of the concept of performance. The problem is that this is not the case. As the correlations between the three measures used by Good show:

... it is clear from the general patterns that profitability, growth and capital intensity are quite different concepts and not just three different measures of the same thing. (15)

The implication of Good's finding is that to measure JV success, indicators based on growth and profitability cannot be used simultaneously. In simple terms, the dilemma is the following: if
performance is measured both by growth and profitability indicators, how does one decide which is more successful, a highly profitable, slow growing firm, or a not-so-profitable fast growing, firm?

Before selecting specific dimensions to measure a given concept, a conceptual definition is needed. In the three studies outlined above, the lack of such a definition makes it impossible to evaluate which of the indicators, if any, are appropriate to measure performance.

A second limitation in the financial measures of performance is that comparisons between firms can be biased due to different accounting or transfer pricing policies. The result can be, for instance, an over or an under-estimation of the "real" profitability level. Depending on tax considerations, a MNC may use accounting and transfer pricing policies to maximize taxable income in the home or the local country. Concerns with the use of accounting data to measure a company's income are expressed in the following quotes:

Arriving at an estimate of the periodic income of a business enterprise is perhaps the foremost objective of the accounting process. The word estimate is unfortunately proper because income is one of the most elusive concepts in the business and economic world.

A swelling tide of criticism has been voiced in recent years about the variety of accounting treatments possible in given situations, the effect of this variety on corporate financial reporting, and the consequent difficulty that readers of financial statements have in making decisions based (in fact) on such statements.
In summary, the analysis of the above studies confirms Killing's finding that financial indicators are not appropriate to measure JV success. The indicators based on growth and profitability cannot be used to measure the same concept, performance, and it is difficult to compare those indicators between firms because of differences in the accounting policies used.

Before other measures of JV success are examined, the major findings of the three studies presented in this section are reviewed.

Three major findings came out of Good's research. First of all, there was no significant difference in performance between the two groups of firms. Secondly, within-group differences in performance were successfully accounted for by the independent variables investigated. Thirdly, the variables which discriminated between successful and less successful JVs were different from those which discriminated between successful and less successful Mexican firms. In the case of the JVs the more powerful variables were found to be:

- Equity patterns.

Firms with a greater percentage of Mexican capital were found to have a higher return on equity. Also, firms which had more than one US partner were those with the highest rates of growth in assets.

- Internal distribution of financial resources.
Firms with a higher ratio of current assets to current liabilities were found to have a higher ROE as well as a higher ROI, and firms with a lower ratio of accounts receivable to current assets showed a higher growth rate in sales.

- Investment pattern.

Firms with a higher ratio of new land and buildings to total assets showed a higher rate of growth in profits.

That JVs with a greater percentage of Mexican ownership exhibit a higher return on equity is an important result. It shows as unjustified the fear of MNC managers that to give up a portion of the venture's ownership to their local partner will affect the JV's profitability. Good explains this result by the various tax benefits and other advantages granted by the Mexican government to firms conforming to its preferences.

In his study, Renforth found that overall performance of JVFFs and JVNFFs was similar on eight out of the nine measures used. He concluded:

Although JVFFs and JVNFFs may operate differently, these differences in operating patterns do not affect performance. (16)

Renforth explained the failure of his data to reveal any relationship between operating characteristics and performance by outlining weaknesses in his measure of operating characteristics. His measure is
based on an evaluation of the frequency of the contacts (measured by the flows of men, money, material and information) between a JV and its environment at each of the nine interfaces — stockholders, creditors, suppliers, consumers, employees, public, trade, managers and government. Clearly, Renforth's measure of the JVs' operating characteristics does not improve our understanding of how JVs operate.

Finally, in his research, Dang found that there is no influence of ownership on performance. His data indicates that there is no difference in the performance of JVs and wholly-owned subsidiaries. Dang's finding can be explained by the fact that the JVs he studied are not managed differently from the wholly-owned subsidiaries, since he recognized that the local partners were simply interested in putting money in the venture. Management was left to the discretion of the MNC parent. In fact, Dang's result gives support to Killing's study which shows the existence of a relationship between parent control and JV performance (Dang's JVs are similar to Killing's dominant parent JVs).

In summary, the analysis of the studies reviewed in this section reveals two major problems associated with the use of financial data to measure JV success. First, there is the issue of validity and comparability of the accounting data, and second, the use of indicators such as profitability and growth, which are not correlated, as measures of the same concept (JV performance).
2.2 JV survival as a proxy for JV performance.

The concept of JV survival was introduced by Franko in his thesis, "Joint Venture Survival in Multinational Corporations" (19). Franko retained survival as the dependent variable because he observed that most cases of JV instability led to significant costs to the US parent (both financial and in terms of adverse publicity). Survival was measured by the non-occurrence of any one of the following three instances of JV instability:

Type 1: The US firm increased the share of its ownership to more than 95% of the JV's stock, thus converting the joint-venture to what is probably thought of by the firm as a wholly-owned subsidiary.

Type 2: The US firm increased its share of the venture's stock from a minority or 50-50 to a majority position under 95%.

Type 3: The US firm sold out to its foreign partners (i.e. reduced its percentage of ownership to 5% or less of the joint venture) or liquidated the venture by mutual consent (20).

The advantages of such a measure are that it is easy to use and that firms can be classified in two distinct categories, stable vs unstable JVs. However, there are two main disadvantages. First, the concept of survival does not help to discriminate between JVs in the same category. For instance, because two JVs are stable does not mean that they achieve similar degrees of success. Second, instability is not failure. There is no evidence to support the argument that instability only occurs in JVs that are doing poorly.

Whereas the studies in the previous section were not successful in
identifying determinants of JV success, Franko found that the MNC parent's strategy and structure were relevant variables. More specifically, Franko found that MNCs pursuing a strategy of foreign product diversification tended to tolerate JVs, while MNCs pursuing a strategy of product market concentration tended to get rid of JV partners. From the organizational perspective, Franko found evidence that MNCs using an area organization had a high rate of JV instability, while those with worldwide product divisions had a very low rate of instability.

In a study on JVs between US MNCs and host governments in Costa Rica, Trinidad and Venezuela, Raveed (21) also used the concept of JV survival to measure the performance of the JVs. Survival was selected as a measure of performance for several reasons. First, data on the traditional measures (ROI, ROA, ...) were not available. Second, Raveed argues that researchers who used such traditional measures were confronted with so many problems of reliability that their conclusions lack external validity. Finally, because as Franko suggested, failure of a joint venture to survive was accompanied by great costs to the MNC: little or no compensation in the case of nationalization, little or no additional cash brought to the JV by selling part of the equity to a local shareholder, adverse publicity following the annulment of an old commitment.

Contrary to the expectations derived from his literature review, Raveed
found that in Costa Rica and Venezuela the survival of US MNC–state enterprise JVs was lower than that of other firms. In the case of Trinidad the hypothesis was only "tentatively" accepted because no failure of such JVs had occurred. This last result reveals some conceptual and operational limitations in the concept of survival as a measure of JV performance. First, we have no evidence that a change in ownership of the JV was accompanied by a change in the traditional indicators of performance. Therefore it is not necessarily true that because a JV survives, its growth and profitability are going to be higher than one that does not maintain its original equity ownership distribution. In order to decide whether survival can be used as a substitute for the traditional indicators of performance, correlations should be calculated to see whether the two kinds of measures pick up different dimensions of the same concept, performance, or whether they measure different concepts.

Second, this concept proved to be of no use in discriminating between successful and unsuccessful JVs since in Trinidad the survival rate was 100% (all state enterprise JVs survived) whereas in Costa Rica and Venezuela the survival rate was 0% (all state enterprise JVs failed to survive).

As a conclusion, in spite of its advantages the concept of survival is not an adequate indicator of how well a JV is doing at a particular time.
2.3 Subjective measure.

The only study where a subjective evaluation of a JV's performance was used is Killing's study, discussed in section 1 of this chapter. Killing asked the JVGM to rate on a five-point scale how well his JV was doing (1: extremely poorly to 5: extremely well).

This researcher argued that this measure has two limitations. First, there is a great risk of respondent bias. Second, it does not consider the criteria on which the manager's judgment is made.

In conclusion, the review of the literature on JV success shows that there is no good measure of the concept. One reason for this is that there is no definition of JV success available. The existing knowledge is more useful to understand what JV success is not, rather than what it is. As a result more evidence needs to be collected and analyzed to improve our understanding of what JV success means. Since the literature review shows that MNC parents and local parents do not necessarily use the same criteria to evaluate the degree of JV success, both sides need to be examined.

3. Parent Control in JVs.

As indicated earlier, the issue of control in JVs has received little attention from academics. This may seem surprising given the importance managers attach to it. The following review of the literature on control in JVs shows that there is no agreement as to
what control means and that for many authors the meaning of the concept is implicit in the mechanisms used to secure it. Two views of control have been identified in the literature. The first view is concerned with whether a parent has a does not have control over a JV (absolute control), while the second is concerned with the amount of control held by a parent (refer to Table II-4 for a summary). The second view is by far the most commonly found in the literature.

<table>
<thead>
<tr>
<th>Absolute Control</th>
<th>Amount of Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Votes or veto right</td>
<td>- ownership</td>
</tr>
<tr>
<td>- formal agreements</td>
<td>- staffing</td>
</tr>
<tr>
<td>- transfer of technology</td>
<td>- locus of decision-making</td>
</tr>
<tr>
<td>- management contract</td>
<td></td>
</tr>
<tr>
<td>- parent's ability to be of some assistance to the JV.</td>
<td></td>
</tr>
</tbody>
</table>

3.1 Absolute control.

Two publications which came out of a large scale study on international JVs conducted at Columbia University are concerned with the issue of whether a parent has or does not have control over a JV. The first publication, edited by Friedman and Kalmanoff (22), compared the existence, types and operations of JVs in twelve developed and developing countries. The authors did not address the issue of control per se. However, they observed that in many JVs where the foreign investor had a minority position, the fact that a local partner had a
voting control was not detrimental to the interests of the MNC. The implication is that MNCs may accept a minority position. Friedman and Kalmanoff suggest that this is the case when the local partner is dependent on the MNC for technical, financial and other types of assistance. The authors called this form of control de facto control - secured through a formal agreement or simply by virtue of the MNC's ability to be of some assistance to the JV. Friedman and Kalmanoff found evidence that de facto control could effectively compensate for a lack of voting control. Their Mexican data, for instance, shows that Celanese Corporation and Westinghouse, both in a minority position, had control through a technical assistance and process agreement. In the case of Bristol de Mexico the foreign parent was prepared to relinquish its majority position because it was running the JV through a management contract.

The same argument was made in the second publication which came out of the Columbia University research project: *Joint International Business Ventures in Developing Countries* by Friedman and Beguin (23).

A whole chapter of the book is devoted to the issue of control, where Beguin examines in more depth the basic control mechanisms introduced by Friedman and Kalmanoff. Although voting control is normally expected to provide control over all aspects of the JV management, Beguin found that it was sought by firms which considered it as a necessary condition for management control. This was the case when the
production involved a complex technology (production of a module to be assembled elsewhere or an assembly process requiring delicate and complex operations), when the firm wishes to protect patents and know-how, when institutional lenders require that the MNC have financial and managerial control, when the MNC sees it as necessary to achieve co-ordination of its multinational operations.

According to Beguin, control is not an issue for MNCs as long as they have a majority ownership but it becomes one in the case of 50-50 JVs when it is sometimes difficult to come to an agreement (i.e. deadlock) between the two partners and the JV survival is endangered. In the MNC minority JV, the risk is that the local majority partner may want to implement decisions contrary to the interests of the MNC, which explains why:

Once a foreign corporation has sought or accepted a minority participation, it often tries to compensate for the absence of voting control by concluding special agreements with the local majority partner and/or by exercising a de facto control on the enterprise. (24)

Among the special agreements Beguin found that the right of veto and representation in management bodies were "two of the most effective and most frequently used protective devices". In terms of de facto control, technical superiority, management skills (or management contracts) as well as the relative "strength" (size, reputation...) of the MNC and its ability to shape the way the JV is operated, confer control to the MNC.
The argument made in the two Columbia studies is that a MNC which takes a minority position in a JV can compensate for the loss of voting control by the inclusion of special agreements in the contract or by the simple possession of skills or knowledge necessary to the JV. In this sense control is held through votes, through a contract or through the possession of specific skills and knowledge. The major limitation of this view is that the focus is not on the outcome of the exercise of control but rather on what may determine this outcome (i.e. votes, contract or skills). There is no evidence the three mechanisms identified are sufficient to confer control to the MNC. For instance the possession of skills and resources important to the JV can serve as a bargaining weapon for the MNC, but it does not mean that the outcome of the bargaining will be in its favor. In the same way, the relationship between control and the existence of management contracts or other agreements is not as straightforward as suggested by Friedman and Kalmanoff or by Beguin. In his doctoral research for example, Phillips (25) observed that the effectiveness of such control devices can be restricted by government regulations limiting the ability of the joint venture management to make decisions "in respect to personnel policy, nationality of management and labor transfer pricing, profits repatriation, local credit, contracting with the associated American firm, market restraints, and expansion of plant" (26).

The influences of the host government may negate, at least partially, the effectiveness of such contracts. It is quite possible that control can be assured only so long as the policies of the firm coincided with the
interests of the host government, as perceived by the host government (27).

3.2 Amount of control.

While in the previous studies the question was whether the MNC has or does not have control over the JV, the question addressed by the following studies is: how much control does the MNC have over the JV? For a good many managers, the amount of control held by a MNC is proportional to its share of the equity. Brooke and Remmers (28), in a book reporting the findings of a 10-year research on MNCs, observe that "fear of loss of control is often cited by companies as a reason for 100 per cent ownership". (29). It seems that there are two psychological barriers that companies have to overcome in that respect. The first one lies at the 100 per cent level and the second at the 50 per cent level. Managers feel that going over each barrier entails a further loss of control. In their view control is proportional to ownership.

This view is implicitly shared by Stopford and Wells (30) who found that the desirability of a local partner was contingent on the amount of control over the subsidiary required by the implementation of the MNC's global strategy:

This study shows that for some kinds of enterprises, the contributions that a partner could make outweighed the dilution of control that accompanied JVs. In other firms, the importance to the MNC of retaining control over certain decisions has been much greater than the contribution that a partner could make. The manager must consider some very specific characteristics of his...
firm when he is deciding on an ownership policy (31).

Important characteristics identified by Stopford and Wells were related to the strategy of the MNC parent. Some strategies required tight controls (e.g.: emphasis on marketing techniques, rationalization of production, control over sources of material or product innovation) while other strategies required loose controls (e.g.: enlargement of the product line, extension of a vertically integrated structure, risk avoidance by small firms). The authors concluded that strategies which require tight control should not be implemented through JVs.

In contrast with the Stopford and Wells' study, the view taken in the studies discussed in the following part of this section is that MNC parents exercise control over a JV through means other than ownership.

In a study describing the impact of US MNCs as they have expanded into Canada, Europe and Australia and the reactions of the host governments, Behrman (32) examined the regulation of ownership and control. He questioned the effectiveness of the JV requirements established by certain governments as a means of increasing local control over the subsidiary of a MNC:

"...because such measure does not reduce foreign control; control can be exercised by considerably less than 100% ownership. (33)"

For Behrman ownership and control are two separate issues and therefore
need to be treated separately by governments:

... if the host government wants control, not merely ownership by nationals, regulations will have to be imposed on the many techniques of control exercised by the parent. (34)

In his study, Behrman does not really go beyond recognizing the existence of "many techniques of control". Nevertheless, he suggests that a large proportion of the variance in control can be explained by the composition of the board of directors and of the management of the affiliate, and their ability to make certain types of decisions. The two dimensions of control implicitly recognized by Behrman are:

1- staffing of the board and of the key managerial positions in the JV,

2- decision-making locus.

These two dimensions, however, have been examined in more depth by other authors. Dang (35), for instance, used a sixteen-item index to measure control based on the locus of decision-making. Control was defined as "the degree of autonomy allowed the subsidiary in various policy areas". No evidence was found of a relationship between the degree of foreign ownership and the degree of control exerted by the parent over the local subsidiary. However, Dang found a higher incidence of expatriate managers in JVs than in wholly-owned subsidiaries, which led him to conclude that the degree of control in JVs may be higher than indicated by the indices. The implication of Dang's finding is that failure to take into account certain dimensions
of control can lead to erroneous conclusions. Two such dimensions have been identified by Dang — the same as Behrman — staffing and decision-making. The issue is: are there any other dimensions which should be taken into consideration to measure control? To answer this question a better understanding of how parent companies exercise control is required. What are the mechanisms used? How effective are they?

In a study which investigates the impact of a decrease in equity ownership on the amount of control exercised by MNCs over their Mexican JVs, Phillips (36) found severe limitations to the use of the locus of decision-making as a measure of control. The author arrived at very few significant conclusions because no clear pattern on the locus of decisions emerged in his data. Phillips found that both operating and policy decisions were made both at the headquarters and at the JV level. Also, the decision-making process appeared to be more complex than the often heard principle that "policy decisions are made at headquarters and operating decisions are left to the subsidiary". As a result it was difficult to identify the locus of a particular decision:

The point generally acknowledged by the executives interviewed, is that there was often no clear-cut basis for connecting a particular location with the decision, despite the existence of a formal technology agreement or majority stock position. A distinction emerges, therefore, between the point of decision-making authority, and the point of the decision. (37)
The implications of Phillips findings are twofold. First, it is not always possible to identify the point of a particular decision, which makes it difficult to conclude where control over that particular decision lies. Second, when it is possible to do so there is so much variability between firms that no generalizations emerge. As a conclusion it appears that trying to measure control based on the locus of decision-making may simplify reality too much to be meaningful.

Besides the determination of policy, Phillips identified a second dimension of control: the enforcement of the policy decisions. Phillips argues that making a decision is not sufficient to have control, compliance with the decision must also be secured. Ownership was not considered by the firms in the sample as a control device. Control was secured through a technical contract, licensing or persuasion of the JV management. The use of one or the other of the above means used to secure compliance was found to be related to the way the JV was staffed:

The parents of the affiliates which were not staffed by Mexicans at the top level tended to rely most heavily upon persuasion, with only a few instances of the use of the formal management or technical contract. On the other hand, the affiliates that were staffed at the top with Mexican nationals were much more frequently controlled through the use of the formal contract. (38)

In contrast with the Behrman and Dang studies presented in this section, staffing is not considered by Phillips as a control mechanism. However, staffing has an impact on the way other control mechanisms are used.
In summary, Phillips makes two important contributions to our understanding of parent control in JVs. First, he shows that the focus of decision-making is not a meaningful measure of control. Second, he suggests that compliance needs to be taken into account to evaluate the amount of control that a parent has over a JV.

A striking characteristic of the three studies presented so far is the limited number of dimensions that researchers have identified to measure control. In a study on American direct investment in Australia, Brash (39) elaborated further on the concept of parent control.

Given the inexistence of an "infallible" standard by which control can be measured, Brash chose a variety of indicators to describe the situation. The first one is the composition of the boards. In most cases, Brash found that the boards simply existed to comply with the Australian law and that they had little impact on the way the subsidiary was managed. As a result, board composition was found to be a poor indicator of control.

Then Brash turned to an examination of the nationality of executive personnel. He felt that the employment of US managers would facilitate communications with the headquarters and that the parent would then be in a position to exercise more control. The findings indicated that few Americans were employed except in the early months of the
operation.

The third indicator was the authority in the US company to which the subsidiary's top management was finally responsible. Brash found that in the case of JVs, all authority tended to be vested in the local board and that:

...most of the firms responsible only to the chairman of directors of the US company appeared to be little subject to direct American interference in management. (40)

The fourth indicator examined was the amount of information sent by the affiliate to the US parent. Brash found that there were significant differences in the amount of information sent by US affiliates to their parent companies. He observed that of 94 firms, 43 reported frequently and in considerable detail, 28 reported fairly often but in less detail, and 23 reported only infrequently or in very brief terms. Wholly American firms tended to report more frequently and in greater detail than JVs:

Almost all firms in the group having only infrequent contact with their parent were either very small or principally Australian in ownership. (41). (Three of the 23 companies in this category were wholly US).

Brash concluded that wholly-owned subsidiaries are more closely controlled by the US parents than JVs, because he felt that a parent company cannot exercise management control on a subsidiary which
transmits little information on its activities. But he also found that firms which transmitted frequent and detailed information were not necessarily closely controlled.

The fifth indicator of control used was the actual extent of American parental control over particular areas of management policy. Four policy areas were taken into consideration: major capital expenditures, product innovation and development, production planning, wages policy and labour relations. For each area, Brash distinguished between firms which had to seek US approval and firms which could act independently. He found that capital expenditures was substantially the most closely controlled policy area among the firms in his sample.

However, there were wide variations between the Australian affiliates in the limits of the projects to be approved. In the other policy areas US control was not so tight. Typically most affiliates had to seek approval before embarking on the production of new products or substantially altering an old one, while the great majority of the affiliates were independent in the area of production planning and very few of them had to seek approval in the area of wage and labour relations.

Overall, the Australian firms studied were not closely controlled by their US parents. One limitation with Brash's measure of control, however, is that some of the indicators used - composition of the board, amount of information transferred and staffing - measure whether
an MNC has the potential to exercise control or not, but they do not reveal if control is actually exercised through these means. Other measures, such as parent involvement in policy, do reflect the amount of control exercised. It is critical to recognize that indicators of "potential control" are different from indicators of "actual control" because as Brash himself recognized, MNCs do not necessarily use all potential mechanisms of control they have at their disposal:

American control may be substantially unexercised even in the case of a wholly American subsidiary if the parent actively pursues a policy of decentralization of decision-making, if it has lost interest in the local operation, or if the executives of the local operation are of particularly independent disposition. (42)

The review of the literature on parent control in JVs reveals a number of important points. First of all, very few researchers try to define the concept of control which makes it difficult to understand and evaluate their measures. Still relevant is Skinner's observation that

the concept of "headquarters control" is too vague to be very useful. More precise terms are needed. (43)

An operational definition of the concept is needed and a more precise definition is a step towards that goal.

Second, ownership is not a prime determinant of control. Researchers have found that MNCs can exercise control over JVs through a management contract, a licensing or a technical agreement, the transfer of specific skills or knowledge on which the JV depends, influence over
the JV's decision-making process, staffing etc.

Third, there is no agreement among researchers on which dimensions are useful to measure parent control.

Fourth, researchers measure the sources of potential control rather than the existence of control.

Given the above limitations, the researcher decided that there is no satisfactory measure for parent control in the literature on JVs. As a result other streams of research using the concept of control were searched for conceptual support.

4. The Concept of Control.

The review of the literature dealing with parent control in JVs reveals the high degree of uncertainty surrounding the meaning of control. The scarcity of definitions of the concept and the lack of unity and consistency in its operational definitions (see Table II-5) make it difficult to understand what control is and what it is not. As a result the researcher examined other studies in the international business literature in which control is a central concept.

The most thorough examination of the issue of parent control in MNCs is presented in "The Strategy of Multinational Enterprise" by Brookes and Remmers (44).
<table>
<thead>
<tr>
<th>AUTHOR</th>
<th>CONCEPTUAL DEFINITION OR CONTROL</th>
<th>OPERATIONAL DEFINITION OF CONTROL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friedman, Kalmanoff, Bégün</td>
<td>None explicit</td>
<td>formal agreements - veto right - MNC’s ability to be of some assistance to the JV.</td>
</tr>
<tr>
<td>Stopford and Wells</td>
<td>None explicit</td>
<td>ownership</td>
</tr>
<tr>
<td>Dang</td>
<td>Degree of autonomy allowed to subsidiary in various policy areas</td>
<td>locus of decision-making (16 decisions)</td>
</tr>
<tr>
<td>Behrman</td>
<td></td>
<td>staffing (JV’s board and key managerial position) - locus of decision-making</td>
</tr>
<tr>
<td>Phillips</td>
<td></td>
<td>locus of policy decisions - enforcement of decisions through contracts or persuasion</td>
</tr>
<tr>
<td>Braeh</td>
<td>Control on policies and influence on management techniques</td>
<td>composition of the board - nationality of executive personnel - authority in parent to which the subsidiary’s management is responsible - amount of information sent to parent - extent of parent control over policy areas</td>
</tr>
<tr>
<td>Killing</td>
<td>None explicit</td>
<td>staffing of the JV - locus of strategic and operating decisions: by JV vs by JV’s board vs by parent.</td>
</tr>
</tbody>
</table>
The authors define control as the exercise of authority and distinguish between the first facet of the concept:

> how the head office attempts to ensure the conformity of the subsidiary to its aims and objectives, and where decisions are taken. (45)

The first facet ensuring the conformity of the subsidiary, deals with the means used to influence people in the subsidiaries. Brooke and Remmers distinguish between calculative authority, which relies essentially on monetary inducements, and voluntary authority which relies on other kinds of inducements (such as moral). The relationship between the two kinds of inducements was found to be very complex at the top levels of the subsidiaries. For instance, the authors observed that MNCs which designated their subsidiaries as profit centers did not tend to implement a reward and punishment system based on the profitability of the unit. Rather than the monetary inducement, it was the desire to make the general manager of the subsidiary feel more independent was the rationale for the profit center. Another case where the calculative inducement was not felt to have very much influence on the general manager was the use of the executive bonus. Given that top managers who qualify for a bonus already have a high salary, it is difficult to expect that a marginal increase of highly taxed income will significantly improve their performance. Brooke and Remmers suggest that MNCs can offer these high level managers opportunities to satisfy their ambitions with new challenges to meet in new and complex environments. The argument presented through the two examples above is that means to influence based on voluntary authority
are more important than those based on calculative authority in gaining the commitment and loyalty of the top managers in a foreign subsidiary.

Another kind of means to influence or to ensure the conformity of the subsidiary are those classified as control systems, which Brooke and Remmers define as follows:

...an apparatus of formal rules, plans - mainly of a financial nature - which help to give direction to and assure coordination and control of the organization's activities. (46)

The subsidiary's planning system constitutes the core of this apparatus. It provides headquarters with control over the operation by giving them an opportunity to have a say in the choice among alternative actions and among alternative uses of resources. The planning system is also considered as a tool to put pressure on management in that, once a plan is accepted, managers become committed to achieving it. If deviations occur, they have to explain them.

The second dimension of control suggested by Brooke and Remmers deals with decision-making. More precisely, the authors are concerned with the amount of centralization and decentralization between the MNC's headquarters and its subsidiaries. The examination of what MNCs do with respect to centralization and decentralization shows the complexity of the issue. Few conclusive results are mentioned, essentially because firms have to react both to pressures to centralize and pressures to decentralize. Pressures to decentralize are for
example: to avoid destroying the initiative within the subsidiary or to avoid losing able managers, or to free the headquarters from too much pressure. On the other hand, pressures to centralize are commercial such as the need to rationalize production across frontiers. In most firms they studied, Brooke and Remmers found that the "real" amount of centralization - i.e. the degree to which significant decisions are retained at head office, whether intentionally or not - was higher than expected.

To come to this observation, the authors devised a scale of centralization where firms could be classified according to the amount of autonomy they had from their headquarters (see Table II-5).

The authors recognize that it is difficult to place a given firm on this scale because of the need to understand how much influence and authority headquarters have in specific areas or issues. It is not sufficient to identify where a particular decision is made. Consequently, what Brooke and Remmers are measuring, is really, "headquarters' influence over decision-making". This is picked up by the last five items on the scale. However, the first three items measure totally different things, so it seems strange to find them on the same continuum. Moreover, the amount of autonomy can vary with the
<table>
<thead>
<tr>
<th>Open relationships</th>
<th>Normal line</th>
<th>Close relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>Investment only</td>
<td>All policy at centre partly integrated management system</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Financial control</td>
<td>Most policy decisions and some operating at centre</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Central services</td>
<td>Reserved decisions in most functions</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>Reserved decisions in most functions</td>
<td>Most policy decisions and some operating at centre</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>Still more decisions reserved</td>
<td>All policy at centre partly integrated management system</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>Planning entirely in the subsidiary</td>
<td>Many operating decisions at centre Fully integrated management system</td>
</tr>
<tr>
<td><strong>7</strong></td>
<td>Planning initiated in subsidiary</td>
<td>Planning initiated jointly between subsidiary and head office</td>
</tr>
<tr>
<td><strong>8</strong></td>
<td>Planning initiated jointly between subsidiary and head office</td>
<td>Planning entirely at head office with consultation</td>
</tr>
</tbody>
</table>

amount of financial controls implemented or the amount of central services provided. For example the amount of autonomy allowed by the financial controls depends on the kind of controls, the amount of information required and the frequency of reporting. Consequently, it is felt that if one attempts to classify firms on a scale from open to close relationships, a single scale is not sufficient; a combination of scales would appear more appropriate.

Despite the above limitations, Brooke and Remmers' study is a significant contribution to our understanding of the concept of control. It shows that the most widely used operationalization of the concept in the JV studies, locus of decision-making, provides a very limited view of control. First of all, the study's findings suggest that it is more relevant to look at the influence exercised by headquarters over a subsidiary's decision-making process rather than simply where a decision is made. Secondly, Brooke and Remmers show that control is the result of a variety of processes, ranging from formal (e.g. planning process) to informal (e.g. voluntary inducements), through which influence is exercised.

In a study cited previously, Skinner also rejects the idea of viewing control in terms of centralization and decentralization as "an oversimplification of headquarters' problems which is meaningless and bound to be fruitless". Skinner argues that it is more useful to divide control into two ingredients:
The word control suggests a high element of involvement and a sense of command as well. These two components of control may be separated and each can be applied in different orders of magnitude by a headquarter. These two components of control should be seen as two distinct ingredients in the headquarter-branch relationship. For example, a headquarter may be deeply involved in the affairs of an overseas plant on a consulting basis and exert little direct control. (47)

Control was measured along the two suggested dimensions: degree of involvement and degree of command. Degree of involvement was measured on a 1 to 5 scale:

1- no headquarter involvement
2- headquarter involved only in general policy
3- headquarter involved in general policy and short-term planning (annual or semi-annual plans)
4- headquarter involved in 3 plus design of total production system of the subsidiary
5- headquarter deeply and consistently concerned with specific operating decisions in addition to all functions in 4.

The degree of command was also measured on a 1 to 5 scale:

1- observe situation but give no advice
2- observe and render assistance or give advice when requested
3- observe and suggest changes on a unilateral basis and insist on being kept informed in detail
4- observe and be kept informed in detail and require plans to be submitted in advance for approval before action is taken
5. have specific detail knowledge through observation reports and frequent plant visits, and give specific orders on decisions other than the most minor.

In Skinner's view, the involvement ingredient of control measures the amount and type of headquarters' involvement while the command ingredient measures the level of involvement ("the extent to which the home-office attempts to exert"). Implicitly, this view suggests that the exercise of control involves a two-step process. First, headquarters observe, supervise, or monitor activities or decisions carried out at the subsidiary level. Second, headquarters have inputs in those activities or decisions in a variety of ways, ranging from doing nothing, giving advice to giving specific orders.

The two steps identified in Skinner's concept of control are not inconsistent with Brooke and Remmers' definition. On the contrary, it is felt that both approaches are complementary in that when headquarters observe that activities and decisions in the subsidiary are consistent with their goals and objectives (i.e., there is conformity), it is likely that they will not have additional inputs. On the other hand, if headquarters perceive that conformity of the subsidiary with their goals and objectives is likely to be jeopardized, they will want to have inputs in order to assure conformity.

The difference in the two approaches is that Brooke and Remmers define
control in terms of what it is while Skinner defines control in terms of how to exercise it.

For the purposes of this thesis it is essential to start off with a definition of what control is in order to develop an understanding of how it is exercised. The following definition is suggested:

Control refers to the process through which a parent company ensures that the way a JV is managed conforms to its own interests.

The above definition contains two fundamental ideas. First of all, it suggests that to have control a parent company must be able to "measure" what is done in a JV (results) and how it is done (decisions and behaviors). This is the monitoring component of control. Secondly, it suggests that a parent must be able to determine activities (behaviors and decisions) in a way which is consistent with its own interests. This is the influence component of control.

In the researcher's view, control refers both to a process and an outcome. A judgment on a parent's control cannot be made by simply looking at how the parent attempts to exercise it. A measure of how successful the parent is in controlling is needed, and this is why the outcome of a control attempt needs to be taken into consideration. This view of control is consistent with Tannenbaum's representation of control:

as a cycle beginning with an intent on the part of one
person, followed by an influence attempt addressed to another person, who then acts in some way that fulfills the intent of the first. (48)

5. Summary.

From the analysis of the literature on JVs, the relationship between parent control and JV success can be summarized in the form of a model (see Figure II.2). The model is derived from studies which show that parent control is an important determinant of JV success and from studies which identify the JV contract, the locus of decision-making and staffing, as the main elements in the exercise of control.

However, the literature review also reveals that there is little agreement among researchers as to what control means and how it is exercised. Clearly, more empirical evidence is needed to develop a better understanding of what parent control and JV success mean. It is hoped that from this understanding, better operational definitions and measures will be derived. One way to develop such an understanding is through clinical research. The next chapter presents the methodology followed in this dissertation together with its rationale.
Figure II-2: A model summarizing the relationship between parent control and JV success

JV CONTRACT
- Ownership
- Veto right
- Special agreements

LOCUS OF DECISION MAKING

STAFFING

CONTROL

JV SUCCESS
FOOTNOTES

(1) Killing J. Peter, Strategies for Joint Venture Success, First draft, Internal Document, School of Business Administration, University of Western Ontario.

(2) Ibid, p.10.


(4) Ibid, pp.6-1, 6-2.

(5) Ibid, p.6-2.


(8) Ibid, p.185.


(34) Ibid, p.140.


(38) Ibid, p.


(40) Ibid, p.113.

(41) Ibid, p.115.

(42) Ibid, p.104.


(45) Ibid, p.63.


(47) Skinner, Op.cit., p.188.

CHAPTER III - RESEARCH METHODOLOGY

Ideally, the choice of a methodology should follow from both the research question and the existing knowledge of the key concepts and their relationships. Taken together, these two factors determine the specific objectives of the research, and an appropriate methodology to achieve them. Practically, this meant that an in-depth clinical study was necessary to achieve the objectives of this dissertation. However, constraints beyond the control of the researcher made it difficult to implement the ideal methodology and adjustments had to be made (1). Further, as the evidence was collected, the researcher was able to gain a better understanding of the issues related to parent control. It became apparent that trying to measure the amount of parent control was not addressing the key issue with respect to parent control in JVs. As a result, the orientation of the dissertation remained the investigation of the relationship between parent control and JV success, but the specific problem addressed was changed to: how do managers in parent companies control JVs to ensure that they meet their expectations.

This chapter presents the methodology underlying this research and explains how it was developed.

1. Factors which Influence the Nature of the Research.

The original research problem that the researcher intended to address involved the identification of circumstances in which MNC managers
should, or should not, allow their local partner a high degree of control over the management of a JV. In other words, the research question involved the identification of circumstances where JVs with a low degree of local partner control are more successful than JVs with a high degree of local partner control and, conversely, of circumstances where JVs with a high degree of local partner control are more successful than JVs with a low degree of local partner control. The two patterns that this thesis attempted to identify are illustrated in Tables III-1 and III-2 (where x, y, z are different from a, b, c).

Table III-1: Circumstances in which high local partner control leads to JV success.

<table>
<thead>
<tr>
<th>Local partner control</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Circumstances x, y, z</td>
<td>Circumstances x, y, z</td>
</tr>
<tr>
<td>High</td>
<td>Circumstances x, y, z</td>
<td>Circumstances x, y, z</td>
</tr>
</tbody>
</table>

Table III-2: Circumstances in which low local partner control leads to JV success.

<table>
<thead>
<tr>
<th>Local partner control</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Circumstances a, b, c</td>
<td>Circumstances a, b, c</td>
</tr>
<tr>
<td>High</td>
<td>Circumstances a, b, c</td>
<td>Circumstances a, b, c</td>
</tr>
</tbody>
</table>
In order to be able to classify JVs in such a matrix a measure of JV success and a measure of control are required. However, as the literature review in the preceding chapter suggests, we have little knowledge about what JV success and control in JVs mean. First of all, previous research using objective measures of performance such as profitability or growth have been plagued by various problems, the most frequent having been:

- Validity of the data, particularly in cases where they are not readily available.
- Differences in accounting and reporting procedures between industries, and even firms which reduce the validity of the comparison of performance indicators between firms.
- Differences in levels of performance between industries. For various reasons - growth potential, market structure, government regulations - some industries enable firms to achieve higher growth rates and profitability levels than others.
- Irrelevance of traditional criteria of performance to JVs where parent companies, as shown by Killing (2), can be satisfied with little or no profits, as long as they make satisfactory returns on services and/or products sold to the JV.

So far, no measure of JV success has been devised that copes with all those problems.
Secondly, little is known about the way parent companies exercise control over their JVs. Various concepts of control have been developed in the context of wholly-owned subsidiaries but they have their own limitations which make them difficult to apply to JVs.

The implication of our lack of knowledge about the two fundamental concepts in the research question is that the research has to start with the first step in theory building: developing an understanding of the vocabulary used. Given this objective, the most appropriate methodology is to talk to managers and try to understand what they mean by JV success and by control over a JV. A clinical approach is expected to provide, through in-depth interviews, a better grasp of what managers control in the JVs, why they do it, through which mechanisms, and, finally, the relationship between control and success.

Given the nature of the research problem and the little knowledge available to address it, the thesis is exploratory and represents an attempt to build a theory rather than to test one. The need to step back in the research process and to have recourse to a clinical approach, is further evidenced by the failure of earlier large scale studies on JVs to develop an organized understanding of how JVs are managed. No general model explaining JV success is available.

The starting point of the research is not a theory. Rather, it starts with the assumption that two variables - parent control and JV success
are of interest and that there might be a relationship between the two. This is precisely how Spender differentiates between theory-testing and theory building:

The theory-building procedure is quite different from that of theory-testing. The most important difference is that there is no hypothesis or theoretical relation being asserted. Theory-building starts merely with the assumption that certain variables are of interest, that there might be the possibility of conjunction between two measurement systems S and T. (3)

This researcher believes that before we turn to large scale studies, more data on JVs is required. A good way to collect this data is through what Mintzberg calls "detective work" (4). Detective work involves in-depth interviewing and observation and enables the researcher to gain insights as to how control is shared between the two partners, how it is exercised, and how control influences the degree of JVs success. Following this process will enable us to meet the following objectives:

- to understand the relationship between parent control and JV success
- to identify circumstances in which MNCs should, or should not, allow their local partner a high degree of control over the management of a JV
- to test Killing's proposition that control is an important factor in explaining JV success
2. Operational Definitions

Because of the limited understanding we have about parent control and JV success, this research aims at identifying some dimensions which may help us in measuring the two concepts. In order to understand what JV success and parent control mean the following questions were used:

1. **JV success**: How successful is your JV? How satisfied are you with your JV? How well is your JV doing? On what basis do you decide? How do you evaluate your JV's performance? What does the JV need to do to keep you satisfied?

2. **Parent control**: How do you control your JV? How do you ensure that your expectations are met? In which areas (decisions or activities) do you want to be involved? In which areas are you involved? How do you influence the JV?

3. Intended Research Design

Given the need to carry out clinical research, two issues remain to be solved: the selection of a sample and the method of data collection.

The unit of analysis in the study is the JV. However, to obtain the level of depth and detail required to achieve the research objectives, it is not sufficient to collect the data at the JV level only. As Brooke and Remmers (5) observed, perceptions about the amount of headquarters control over subsidiaries vary, depending on the perspective. Generally, managers at headquarters felt that they were
leaving more autonomy to their subsidiaries than what was perceived by the managers of the subsidiaries themselves. The implication is that to understand what control really means, it is necessary to obtain data from the three perspectives involved: the MNC parent, the local parent and the JV.

The depth of the data required at each of the three levels for each JV makes it necessary, for obvious reasons (cost and time), to limit the size of the sample. However, in research where the objective is to develop a better understanding of a complex phenomenon, rather than to statistically test an hypothesis, the size of the sample becomes a secondary issue. As Bartlett suggests:

Since the goal is not to statistically validate hypothesized relationships between variables, the size of the sample is less critical than the quality of the data available, and the depth of understanding that can be generated from a detailed review of the subtle and interrelated processes in a few whole systems (6).

Under such circumstances this researcher decided to study eight JVs, two JV per cell in the following matrix:
Table III-3: Local partner control and success of the JVs in the intended design.

<table>
<thead>
<tr>
<th>Local partner control</th>
<th>JV success</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>JV1, JV5</td>
<td>JV2, JV6</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>JV3, JV7</td>
<td>JV4, JV8</td>
<td></td>
</tr>
</tbody>
</table>

Given that for each JV three sets of interviews were planned, a sample of eight JVs involved twenty-four sets of interviews.

The next step in the selection of the sample was to choose the actual research sites. In order to enable comparisons between industries and between firms the researcher decided to investigate two industries and four JVs in each.

The actual selection of the eight research sites was to take place after a three-week field trip to Mexico City. A first objective of this field trip was to map the territory of JVs operating in Mexico. The expectation was to identify the population of JVs and arrive at a classification of the JVs by industry. From this classification, two industries were to be selected. A second objective of the first field trip was to start interviews with a random sample of JVs in each of the two industries in order to arrive at an operationalization of the
concepts of success and control. Once criteria were established to classify JVs in the High/Low Success and High/Low Local Partner Control categories, interviews would be pursued to fill the four cells outlined in Table III-3 for the two industries. At this stage, the interviews were to be short since the objective was simply to position JVs in the matrix. The final purpose of the first field trip was to secure cooperation of the companies' managers for the study.

4. Actual Design

4.1 Familiarization with the Mexican environment.

While working on the thesis proposal, the researcher attempted to develop an understanding of what doing business in Mexico is like. Various people and organizations were approached in this process. On the Mexican side, insights were provided by:

- The Office of the Trade Commissioner of Mexico in Toronto (IMCE: Instituto Mexicano de Comercio Exterior). General data on the Mexican economy, a copy of the abridged version of the Industrial Development Plan 1979-1982-1990, and contacts in Mexico were provided.
- The Assistant Manager of the Mexican Foreign Investment Agency (Dirección General de Inversiones Extranjeras y Transferencia de Tecnología), provided an understanding of the philosophy of the Mexican government towards foreign investment and JVs. Later in the research, the heads of the
legal and economic departments of the agency were interviewed in Mexico City.

Two bankers from two Mexican banks and one from the Mexican branch of a Canadian bank provided information on the Mexican capital markets and on specific companies.

On the Canadian side, the following people and organizations proved particularly helpful:

- The staff from the Commercial Division at the Canadian Embassy in Mexico City. Help was provided in identifying and approaching Canadian firms operating in Mexico.

- The person in charge of the Mexican desk at the Ministry of Industry Trade and Commerce in Ottawa gave insights on the importance and the direction of Canadian-Mexican commercial relations.

- Canadian bankers (in two of Canada's largest chartered banks), with extensive experience in Mexico were helpful in providing insights on the kinds of problems faced by foreign firms in Mexico, and in giving useful contacts.

- Canadian managers in two firms contemplating investments gave their perceptions of the opportunities and threats they saw in such an endeavour.

On the American side, the American Chamber of Commerce in Mexico was an invaluable source of information, specifically a list of American
investments in Mexico. The Director for Economic Information was helpful in suggesting JVs for investigation and authorizing the researcher to use his name and the Chamber's name in approaching a selected number of companies.

In terms of publications, the booklet on Doing Business in Mexico produced by Price Waterhouse was very useful as were a research report produced by the Departmental Industry, Trade and Commerce, Technology Branch presenting a "Study of Canadian Joint Ventures in Mexico" by J.W.C. Tomlinson and M. Thompson, and the booklets put together by the Commercial Division of the Canadian Embassy in Mexico City (Mexico Market Booklet series). A Mexican publication, Industriadata (7), lists firms in Mexico with above 30 million pesos in capital, or sales above 70 million pesos, or employing more than 300 persons. For each company, Industriadata gives the address, the name of the top executives, the major products, sales, employment, capital, the date the company was founded, whether there is government or foreign participation and, for a few companies, the extent of foreign equity ownership. Two other useful preparations for field work were the participation in:

- A conference on "Technology in the Americas", organized by the Canadian Association Latin America and Caribbean (CALA).
- A Seminar on "Joint Ventures in Mexico" organized by the American Management Association.
On these two occasions the researcher had the opportunity to make invaluable contacts and to integrate a "real world" perspective into the development of the thesis.

4.2 Outside constraints modifying the intended design.
Before the research methodology could actually be implemented two tasks had to be performed: selecting the sample firms and testing the questionnaires. These were the objectives of the first field trip to Mexico. During this trip the difficulties of carrying out clinical research quickly became apparent. First of all, as Good (8) found out when carrying out her thesis, there is no information available on foreign equity participation in Mexican firms. Hence, it was impossible to draw a sample of JVs from a known and identified population. This is precisely one of the reasons why Good decided not to collect the data for her thesis in Mexico City and to go to Monterrey. The other motive for her decision was as follows:

In addition, the atmosphere in the business community itself is hostile and suspicious; direct inquiries are usually refused. Thus it proved extremely difficult to locate a sample of JVs in Mexico City and obtain any confidential information about their operations. (9)

In view of these problems the researcher decided to resort to a convenience sampling plan. A sample of four Canadian JVs was identified with the help of the Commercial Counselor at the Canadian Embassy, and a sample of seven American JVs was identified with the help of the Director for Economic and Investment Information at the
American Chamber of Commerce. Interviews were obtained with the presidents or general managers of all firms either through a phone call or through a letter followed by a phone call. Contrary to Good's experience, the managers' reaction was very positive to the research problem and to the idea of cooperating with the study. The managers' interest was further demonstrated by the fact that an additional JV was included after the representative of one parent learned about the study and asked to talk to this researcher.

A number of implications for the research methodology came out of this first set of interviews. First, of the twelve companies approached, three were wholly-owned subsidiaries of American MNCs. This point proves the difficulty in identifying JVs even for knowledgeable people. One of three companies was engaged in several JVs in Mexico, and the president proposed to give access to two or three of these JVs. The other two wholly-owned subsidiaries had to be eliminated. Second, most of the JVs interviewed were not "pure" JVs; i.e., between a foreign corporate parent and a Mexican corporate parent. In addition to JVs where the local partner was a Mexican firm, there were JVs with Mexican banks, with consortia of Mexicans, with a wide number of shareholders through the stock exchange, with the affiliates of foreign MNCs and with a government agency. The diversity in local partners observed in this small sample reflects the unavailability of Mexican firms that can serve as potential partners in JVs with foreign MNCs. Meynen, Friedman and Weg observed that this situation is characteristic
of LDCs in general:

Unfortunately, the true joint venture—one in which a partner can make a contribution in something other than cash and a package of intangibles with highly debatable worth—is rarely found in less developed countries... (10).

Third, while the questionnaires could be improved after a first set of interviews, the depth in the answers differed markedly between respondents. Fourth, it seemed difficult to categorize the JVs in the 2 by 2 matrix relating local partner control and success, simply because the perceptions differed between the parents or between a parent and the JVGM, which made it difficult to measure the various perceptions on an aggregate basis.

During a second trip to Mexico a number of other JVs were investigated for potential inclusion in the research, and interviews with other parties (parents or JVs) to the original set of JVs were planned. Gaining access to the three sides for each JV proved impossible in a number of cases, essentially because of the inability to arrange interviews during this researcher's stays in Mexico.

The implications of all these limitations resulted in the sample described in the following section.
5. The Sample.

While initial interviews had been carried out with more than twenty JVs, only ten of them were kept for the final analysis. A summary of the characteristics of the sample JVs is presented in Table III-4. The ten JVs were selected in a way that represents the diversity in the kinds of local partners found in Mexico and in a way that enables comparability across industries and also within at least one industry. In doing so it was hoped that it would be possible to distinguish the industry-specific factors in the analysis. The other criterion in the selection of the ten JVs was cooperation. As indicated earlier, there are limitations in the amount of time that managers could or would provide. However, some managers were ready to give more information than others and the decision was made to concentrate on companies where this was the case. Further, managers in some companies were difficult to contact, so it was decided to keep JVs where at least two perspectives (of the ideal three) could be secured.
<table>
<thead>
<tr>
<th>JOINT VENTURE</th>
<th>INDUSTRY</th>
<th>YEARS IN OPERATION (To 81)</th>
<th>JV SALES 1980</th>
<th>MEXICAN PARENT</th>
<th>COVER-SHIP</th>
<th>M.D.S. PESOS</th>
<th>M.D.S. $ SALES</th>
<th>COVER-SHIP</th>
<th>M.D.S. PESOS</th>
<th>M.D.S. $ SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAC</td>
<td>CHEMICALS</td>
<td>23</td>
<td>53M US$</td>
<td>49%</td>
<td>13,650M</td>
<td>BANK</td>
<td>9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HAL</td>
<td>CHEMICALS</td>
<td>17</td>
<td></td>
<td>40%</td>
<td></td>
<td></td>
<td></td>
<td>GOVERNMENT AGENCY</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>IRSY</td>
<td>CHEMICALS</td>
<td>10</td>
<td>6,511 US$</td>
<td>39%</td>
<td>6,573M</td>
<td>STOCK EXCHANGE</td>
<td>9%</td>
<td>MEXICAN FIRMS:</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>SON</td>
<td>CHEMICALS</td>
<td>9</td>
<td>75%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>MINORITY HELD SUBSIDIARY OF A U.S. COMPANY</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>HOTEL MANAGEMENT</td>
<td>6</td>
<td>49%</td>
<td></td>
<td>51%</td>
<td></td>
<td></td>
<td>BANK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>QA</td>
<td>HOTEL MANAGEMENT</td>
<td>3</td>
<td>49%</td>
<td></td>
<td>51%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AP</td>
<td>ALUMINIUM</td>
<td>37</td>
<td>2,470 US$</td>
<td>49%</td>
<td>5,264M</td>
<td>CONSORTIUM OF MEXICANS</td>
<td>51%</td>
<td>W/A: PRIVATE INVESTORS AND A BANK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RUF</td>
<td>CONSTRUCTION</td>
<td>10</td>
<td>75%</td>
<td></td>
<td>1,852M</td>
<td>MEXICAN FIRM</td>
<td>25%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOP</td>
<td>TELECOMMUNICATIONS</td>
<td>2</td>
<td>40%</td>
<td></td>
<td>2,054M</td>
<td>MEXICAN FIRM</td>
<td>51%</td>
<td>1.9 billion U.S. $ SALES 1980</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HIL</td>
<td>FOOD PROCESSING</td>
<td>12</td>
<td>50%</td>
<td></td>
<td>1,335M</td>
<td>MAJORITY HELD SUBSIDIARY OF A U.S. COMPANY</td>
<td>50%</td>
<td>7,750M PESOS</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
JV's in the final sample operate in the following industries:
- 4 JV's in Chemicals and Petrochemicals
- 2 JV's in Hotel Management
- 1 JV in Food Processing
- 1 JV in Aluminium
- 1 JV in Construction
- 1 JV in Communications.

The foreign parent is American in five, JV's, Canadian in four, Dutch in one.

The kinds of Mexican partners represented in the sample are as follows:
- 3 JV's with a Mexican bank
- 2 JV's with the Mexican subsidiary of a US MNC - one subsidiary with US majority, the other with US minority ownership
- 3 JV's with a Mexican company
- 1 JV with a consortium of Mexicans
- 1 JV with a Mexican government agency.

6. Data Collection.
The data was collected through personal interviews. Sometimes the JV was approached first, sometimes the parent. In both cases the names of the persons to contact in the other parties to the JV were secured whenever possible. If a parent was approached first, generally the
president would contact the JV to mention that the parent was participating in a study on JVs and to ask for cooperation. But the president of a parent company never tried to induce the participation of his partner. In only one case the researcher had to obtain an agreement to cooperate from all three parties before starting to collect the data in that company.

Interviews lasted from one hour and a half to more than twelve hours. The typical interview would last 5 to 6 hours over two visits. After testing the questionnaire, it was decided to use it as a checklist rather than an interview guide (the questionnaires are presented in appendices A and B). The initial interviews showed that an open discussion yields more information in a less formal climate than following a questionnaire. So the interviews started with a presentation of the research problem and then proceeded with a historical review of the events that led to the creation and the growth of a JV. The questionnaire was mentioned during the introduction but was not used until the discussion had gone for a while, essentially to make sure that all important areas had been covered.

The amount of data collected varied depending on the personality or the interest of the managers interviewed. Twenty-six managers were interviewed in the ten JVs studied. In each JV the JVGM was interviewed, and in the parent companies, the presidents and/or the persons to whom the JVGM reports. In two JVs the head of corporate
planning was also interviewed, and in three parent companies more than one hierarchical level was investigated. Given the circumstances, where the persons interviewed were all at top levels; and where the researcher had little to offer in return for the help received, the level of cooperation was excellent. Only one manager in the more than forty managers approached during the study refused to cooperate. The VP of the International Division believed that there were too many confidential issues involved in the way his company managed JVs.

It took ten weeks and four trips to collect the data in Mexico City and various trips in Canada and the United States to collect the data from parent companies.

During the data analysis phase further interviewing was carried out by telephone in order to secure additional information from the sample firms.

7. Data Analysis.
The thesis has been conducted in a way similar to what Glaser and Strauss call "grounded theory" ([11]). Some data was collected and analyzed, then more data was collected and the analysis adjusted in light of the new evidence and so on. The most difficult decision in this type of research is: when should the process stop? The first criterion was purely judgmental. It was the researcher's judgment that he had gone sufficiently far to make a contribution to
the existing understanding of how JVs work. The other criteria were funds and time.

The data were analyzed through case studies. In a first step, after each interview a case was written about the issues and problems seen from one perspective. In a second step, a framework was devised which integrated for each JV the key elements of the argument made in this thesis:

- Motives for creating the JV.
- Expectations and criteria of success, and their changes over time, both from the JV's and the parents' perspectives.
- Information requirements (formal, informal, reports, meetings) to check whether the criteria of success are met or not.
- Parent control. What do parents control and how do they do it? Changes over time.
- JVGM autonomy.
- Analysis of the relationship between the above elements.

The findings of the study are reported in two parts. The first part presents the evidence in the form of ten case studies one for each JV (refer to Chapter IV), while the second part presents the analysis of the data, the findings and their implications.
8. Redefining the Research Problem.

As the researcher analyzed the data from the ten Mexican JVs, and gained a better understanding of the concept of parent control, it became clear that trying to measure the amount of parent control was not addressing the most relevant issue with respect to control. This researcher found that it is more relevant to look at control by addressing the issues of what, why and how do parents control rather than how much control do they have. This finding led to the formulation of the research problem addressed in this dissertation: how do managers in parent companies control JVs to ensure that their interests are met?

The purpose of this section is to discuss how the evidence on control led to the modification of the originally intended research problem.

In order to classify the ten JVs studied in two categories (low local partner control and high local partner control) an attempt was made to classify them in Killing's categories: dominant parent, shared management and independent JVs. The following criteria, developed by Killing, were used:

Dominant parent: The important feature of dominant parent joint ventures is that they are managed by their dominant parents virtually as if they were wholly-owned subsidiaries. The board of directors, although containing executives from each parent, plays a largely ceremonial role. All of the ventures' operating and
strategic decisions are made by dominant-parent executives, located either in the joint venture or the parent company.  

Shared management: Both parents play a meaningful role. The board of directors, comprised of executives from each parent, has a real decision-making function. Functional personnel are often drawn from both parents.

Independent: They are relatively free of parental influence. The only interaction between the firms takes place via the board of directors. Strategic decisions involve the board. Operational decisions are left to the joint venture general manager.

According to these criteria the ten Mexican JVs were found to fall into the shared management category. There were no independent JVs since both parents did exercise influence over the JVs. Nor were there dominant parent JVs since the board of directors was found to play an important managerial role in all JVs and since even when one parent was in charge of the JV's management it was not in a position to implement decisions that are not accepted by its partner. As a result Killing's categories were not found useful to discriminate between JVs where the local partner had a high or a low degree of control.

The major reason why the JVs in the sample could not be classified into Killing's categories lies with the operationalization of the categories themselves. Killing's categories are based on the assumption that the control behavior of parent companies can be compared along two fundamental dimensions:

- the staffing of the JV: do JV managers come from one parent, both parents, none of the parents?
- the locus of decision-making: are decisions made by the JV, by
The validity of this assumption is seriously questioned because the evidence collected for this thesis shows that the consideration of the two dimensions above gives a very partial understanding of how parent companies control their JVs. Many more dimensions are involved. But more importantly, the set of dimensions relevant to evaluate the control exercised by one parent can be totally irrelevant to measure the control exercised by the other parent. For instance, one parent may control the JV through a veto right, specific reports it requires, training programs, while the other parent may control the JV through direct involvement in the preparation of the budget and financial plan, approval of the appropriation requests and regular meetings with the JVGM. In this situation, both parents exercise control over the JV; but how does one decide which parent has more control? Because control is a multidimensional concept, and because there is no rule available to combine the diversity of dimensions in an overall index, classifying JVs into categories where the local partner has a high and a low degree of control becomes particularly risky. What does high (or low) control mean in such circumstances?

As the data for this thesis was being collected it was becoming clear that managers in parent companies are not, in reality, concerned with the overall control over a JV. Rather the way they exercise control suggests that they are primarily concerned with control over specific
activities or decisions. By reducing the unit of analysis from control over the JV's management to control over a specific activity or decision, it becomes easier to evaluate if a parent has or does not have control. This is done by investigating the mechanisms used to influence a specific activity or decision and the outcome of the influence attempt.

It seems more useful to study the control behavior of parent companies by trying to understand how parents control individual activities or decisions rather than by trying to measure how much control they have over a JV on an aggregate basis. As a result, it is argued that the more relevant question with respect to control is not how much control does a parent have?, but rather, what does a parent control, how and why? Certainly managers will find more useful a theory which tells them what mechanisms are successful in influencing specific activities or decisions than a theory which tells them that they need a high (or a low) degree of control.

In this view a parent has control when it influences decisions or activities that it decides are important to the satisfaction of its interests. The ability to make unimportant decisions or to influence unimportant activities does not give control.
9. Summary

The decision to carry out a small scale clinical study to investigate the relationship between parent control and JV success was dictated by the complexity of the concepts and the little knowledge available about them. As a result this dissertation is based on an in-depth study of ten JVs, involving whenever possible, interviews with managers from each parent as well as from the JV.

By implementing this methodology the researcher was able to formulate more precisely the problem addressed in this dissertation. The following chapters present the evidence gathered through the interviews and the major findings of this study.
(1) The need to adapt the methodology to circumstances has been felt by other researchers. For instance S. Alter, in his Ph.D thesis, A Study of Computer Aided Decision Making in Organizations, MIT, May 1975, distinguished between an idealized version of his methodology and a less idealized version – the actual methodology.

(2) Killing, J.P., Strategies for JV Success, University of Western Ontario, Unpublished material.


(5) Brooke and Remmers


(7) Industriales 1980-81, cuarta edicion, Mercametrica ediciones, "S.A."


(9) Good, L., op.cit., 1972, p.54.


CHAPTER IV - THE EVIDENCE

This chapter presents case studies on each of the JVs in the sample. In order to impose some structure on the clinical evidence, the cases are organized around four types of JVs:

- JVs which have been turned around: NIL, HAL, RUF
- JVs which have been successful overall but have been unsuccessful at one time: PAC, AP
- JVs which have always been unsuccessful: CT, SON
- JVs which have always been successful: IRSA, QA, TOP.

The four types are derived from the JV success matrix below which presents the JVs on the basis of whether they are successful or unsuccessful in the eyes of their parents.

<table>
<thead>
<tr>
<th>Local parent</th>
<th>Unsuccessful</th>
<th>Successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>MMC parent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unsuccessful</td>
<td>CT</td>
<td></td>
</tr>
<tr>
<td>Successful</td>
<td>RUF, SON</td>
<td>NIL, HAL, QA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>TOP, IRSA, PAC</td>
</tr>
</tbody>
</table>

Because the research is longitudinal and not static, it was possible to pick up changes in position over time and, as a result, to classify the JVs in the four categories suggested.
In order to arrive at some standardization in the presentation of the clinical studies, the researcher decided to organize the evidence for each case in accordance with the research framework discussed in chapter VII. As a result the clinical description of the JVs in each category is influenced by models presented formally later on in this dissertation.

1. JVs Which Have Been Turned Around.

The data for the JV NIL is summarized in Table IV-1. As shown in the JV success matrix below, NIL illustrates the case of a JV which was successful (S) in the eyes of its MNC parent, unsuccessful (U) in the eyes of the local parent (LP) and which became successful for both parents:

```
  +---+---+---+
 MNC | U | S |
  +---+---+---+
  | U |   |   |
  +---+---+---+
  | S |   |   |
  +---+---+---+
        (1)    (2)
```
<table>
<thead>
<tr>
<th>CRITERIA OF SUCCESS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originally, priority on:</td>
<td>利润</td>
<td>经済（想望が高く、規制）、将来の相場</td>
</tr>
<tr>
<td>1) gaining experience: learn how to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>manage JVs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) market penetration of their brand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Now, profits and growth, with an</td>
<td></td>
<td></td>
</tr>
<tr>
<td>emphasis on their brand products</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRATEGICALLY IMPORTANT ACTIVITIES</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originally: products quality</td>
<td></td>
<td>Until 1974: product mix, production capacity</td>
</tr>
<tr>
<td>Now add: packaging</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- advertising</td>
<td></td>
<td>After 1974: strategy formulation, implementation</td>
</tr>
<tr>
<td>- operating budgets</td>
<td></td>
<td>(Emphasis on: cost structure, product mix, production capacity, productivity, distribution and advertising)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONTROL MECHANISMS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originally:</td>
<td></td>
<td>Until 1974:</td>
</tr>
<tr>
<td>- Board</td>
<td></td>
<td>Board</td>
</tr>
<tr>
<td>- Visits from headquarters' specialists: marketing, comptroller, technical (formulas)</td>
<td></td>
<td>- Nomination of JVG and JV's functional managers</td>
</tr>
<tr>
<td>- Over time add:</td>
<td></td>
<td>- Management contract</td>
</tr>
<tr>
<td>- Involvement in the preparation of the financial plan</td>
<td></td>
<td>JVG's bonus tied to parent's results</td>
</tr>
<tr>
<td>- Look over the shoulder: instead of asking &quot;what do you do?&quot;, now they ask: &quot;why do you do it?&quot;</td>
<td></td>
<td>- JV's policies and procedures</td>
</tr>
<tr>
<td>- Approval appropriation requests and plans</td>
<td></td>
<td>After 1974: interactive involvement in formulation of strategic and operating plans</td>
</tr>
<tr>
<td>- Monthly and quarterly reports</td>
<td></td>
<td>- Monitoring of plan implementation</td>
</tr>
<tr>
<td>- Training JV personnel and staff services: sales, marketing and quality control</td>
<td></td>
<td>- Appropriation requests: design and approval</td>
</tr>
<tr>
<td>- Involvement in production decisions</td>
<td></td>
<td>- Staff services: marketing, computer, internal auditing, safety, programs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUCCESS IN CONTROLLING</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful</td>
<td></td>
<td>Until 1974: Successful</td>
</tr>
<tr>
<td></td>
<td></td>
<td>After 1974: Successful</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JV SUCCESS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Until 1974: Successful</td>
<td></td>
<td>Until 1974: Not successful</td>
</tr>
<tr>
<td>After 1974: Successful</td>
<td></td>
<td>After 1974: Successful</td>
</tr>
</tbody>
</table>
NIL is a 50-50 JV between a US chocolate manufacturer (MNC parent) and the Mexican subsidiary of a US food processor (Local parent). Set up in 1969, the JV lost money until 1974. Both parents were annoyed by this situation: the local parent because it was responsible for the management of the JV and the MNC parent because it did not want to withdraw its products from the market. However, the MNC parent was quite satisfied with the JV, which met its main objectives. The sales of its brand products were expanding, their quality was good and MNC managers could learn about the management of a JV through limited term observation stays in Mexico. The MNC parent was able to insure that its criteria were met by its participation in the board meetings where the progress of the JV was reviewed, and by sending functional specialists to visit the JV. On the technical side in particular, the MNC parent organized the production process of the chocolate business, decided on the machinery to use, provided the formulae and received monthly samples to control the quality.

For the local parent, on the other hand, the 1969-1974 period was considered highly unsuccessful. Profits and growth were the major criteria of success, with profits carrying the biggest weight. The local parent was in charge of the JV's management through a management contract which enabled it to appoint the JVGM and the JV's functional specialists as well as to set the JV's policies and procedures. The relationship was at arm's length during that period; the only device used to remind the JVGM of his allegiance was his bonus, which was tied
During the early board meetings the president of the local parent was satisfied with the plans presented by the JVGM stating how he was going to make the JV profitable. His feeling was that nothing more could be done. As the situation did not improve, the president of the local parent became more involved in the JV's affairs. At this time, a number of problems had developed. The JV's inventories were out of balance, new products had failed, the packaging was not appropriate and the JV was late in collecting its accounts receivable. To improve his understanding of the situation, the president asked his company's planning department to carry out a study in 1973 to see what was wrong with the JV and to come up with recommendations. The study concluded that the JV was manufacturing too many products and that it was competing in the wrong market segments. The JV was competing in the highly competitive low-price/high-volume market characterized by low barriers to entry ("anybody can make candy"), while its distinctive competence was in the high end of the market.

As a result of the report, the JV's top management was replaced and the JV's strategy was modified. The local parent nominated a new JVGM, a new financial manager, a new sales manager and a new production manager. As well, it decided to reduce the number of product lines and to go for the high-price segment.
While those changes were implemented, the local parent became more and more involved in the JV's affairs to the point that, in 1980, the relationship between the local parent and the JV was no different from the one it had with its four other divisions. The president of the local parent required that he be personally involved in decisions dealing with hiring and firing, salary increases over a certain level and investments in assets over a certain limit. In addition he talks to the JVGM on the phone every other day ("any particular problem?... how are sales doing?... what about the new plant?...")) and has a weekly two-hour meeting with the JVGM. During those meetings problems are discussed as well as results and projects or ideas that the JVGM would like to present to the MNC parent.

The local parent also integrated the JV into its corporate planning schedule and promotion plan. The JV carries out the same planning activities, with the same deadlines and the same degree of local parent involvement, as any of the other divisions. In addition, promotions are based on a replacement chart applied by the local parent on a company-wide basis, including the JV. Consequently, people from the JV can be promoted to other divisions and conversely.

Finally, the local parent has increased over time the number of staff services made available to the JV. Services in the marketing and personnel areas can be obtained from outside sources if the JVGM decides to do so. However, the JV is required to participate in the
local parent's safety and internal auditing programs. With respect to the latter, the JVGM commented:

(the local parent) uses its internal auditors to collect and process more information than they really need because they want this information to better control the JV.

The implementation of the above changes was accompanied by a dramatic improvement in the local parent's criteria of success: growth and profits (see Table IV-2). After the turnaround the JV has always been successful in the eyes of the local parent. In its president's words:

I have been very satisfied with NIL. Overall, because the new plant (145M American dollars) represents the fruits of growth, and the profits generated are a sign of competent management. Specifically, because the JV's performance against objectives, budgets and plans has always exceeded our expectations.

The MNC parent, on the other hand, in spite of a change in the nature of its criteria of success, has always been satisfied with the JV. A gradual change in expectations took place as the JV grew in importance and as the original objectives were met. By 1980, the MNC parent had learned of something about JV management, as evidenced by the fact that it had entered 6 new JVs in which it assumed responsibility for management. The other original objective was the market development of its brand products, and by 1980 the MNC brand products were leaders in the high-price chocolate segment with a 45% market share. As a result
Table IV-2: MIL net profits and growth in sales (million pesos).

Net profits

Sales

70 71 72 73 74 75 76 77 78 79 80
of this situation the MNC parent has become more and more concerned with the numbers. "It is not a sudden change but the investment is changing. It is becoming more risky", says the president of the local parent, "they look more over the shoulder, instead of asking: what do you do? they now ask: why do you do it?"

Over time the increased MNC parent involvement has taken several forms. For example, while at the beginning the MNC parent's contribution was essentially limited to the technological area, it now feels the need to be involved in finance, marketing and new product introductions. By 1980, the MNC parent was giving advice to the JV on the selection of new products and on packaging; it invited the NIL people to marketing seminars it held in the US. Also, the MNC parent has been allowed to observe the budgeting process with the understanding that it would not interfere.

The developments that have taken place in NIL support the research framework in two ways. First, they show how the JV's ability to meet a parent's criteria of success is associated with the parent's ability to identify and control activities and decisions which are important to the achievement of its criteria of success. Second, they show how a parent adapts the selection of activities or decisions to control and of control mechanisms to changes in its criteria of success.
HAL is a JV involving a Canadian petro-chemical company and a Mexican Government agency. Founded in 1964, the JV is the largest producer of synthetic rubber and carbon black in Mexico. (See summary Table IV-3).

The initial impetus for the JV came from the Mexican Government's decision to eliminate imports of synthetic rubber. The Mexican parent, the sole supplier of the principal raw material required, was the logical vehicle for entry into the synthetic rubber business. As a result, the Mexicans approached the Canadian parent, one of the companies affected by the government ban, because it had a well-known technology. The MNC parent saw in the proposal an opportunity to increase its sales in Mexico and to develop a relationship with potential customers for other products it exported from Canada.

Since the plant came on stream in 1967, the JV's sales have been growing at a 5% annual rate. Over time it has moved through the following stages on the JV success matrix.

<table>
<thead>
<tr>
<th>MNC</th>
<th>U</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td>U</td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>S</td>
<td></td>
<td>(3)</td>
</tr>
</tbody>
</table>
The reason for the JV's early difficulties was purely economic. The plant had been built to produce 40,000 tons a year, 66% over Mexico's market requirements at the time. After the market caught up with the plant in capacity, by the early 70s, the JV became marginally profitable (until 1978), and showed profits since. As the JV's financial performance improved, it became successful in the eyes of the local parent and then in the eyes of the MNC parent.

According to the JVGM, a major reason for the JV's success has been the support received from the two parents. In particular, the MNC parent's commitment to the success of the operation was shown by the numerous engineers and technicians sent to help solve specific problems or to train local staff. The determination shown by the MNC parent contributed, according to the JVGM, to the creation of a state of confidence and interest between the two parents and the maintenance of morale among JV personnel. In turn, the Mexican parent, realizing how interested the minority partner was, provided some staff services and used its clout to defend and promote the JV's interests when it dealt with other government agencies.
<table>
<thead>
<tr>
<th>Criteria of Success</th>
<th>M/C Parent</th>
<th>JV Parent</th>
</tr>
</thead>
</table>
| Technology: efficiency, protection | - Business runs smoothly  
- Return on Net Assets  
- Dividends  
- Develop relationship with potential customers for other products exported by M/C parent | - Profitability  
- Contribution to Mexico  
- Autofinancing of JV |
| Strategically Important Activities | - Technology transfer contract (until 1980), new technical assistance program  
- Appointment of JVN  
- JVN participation to parent's worldwide meetings  
- Production engineer on temporary basis assignment (2 years)  
- Approval of appropriation requests  
- Staff services and training JV personnel (technical matters)  
- Presentations to Mexican partner in Canada  
- Monthly reports  
- Establishment of a formal reporting relationship at headquarters (after 1979) | - Raw materials supplies  
- Investments in new businesses |
| Success in Controlling | Not successful until 1978  
Successful after 1978 | Successful |
| JV Success | Not successful until 1978  
Successful after 1978 | Successful |
Being an agent of government policy, the local parent is interested in the social aspects of the JV. However, these are secondary to the economic benefits of the JV. The Mexican parent is particularly interested in the JV's profitability because it wants HAL to be able to finance its own growth.

Control of the JV by the local parent is, to a large extent, the responsibility of the Petrochemical Division's vice president. Having little expertise in the JV's operations, the VP plays a passive role in management. Typically the VP is appointed by the government for a six-year period and is replaced when a new government comes to power. The six-year rotation in the local parent's top management creates some problems to the JVGM.

During the transition period I have to make sure that no decision is taken too quickly and I need to build credibility with the new people in place. I spend a lot of time explaining the situation and training them to understand the business.

The above statement explains why the VP does not become involved in day-to-day operations. In addition, it clearly suggests that the VP's assessment of the JV relies on information provided by the JVGM. To check the financial data he received from the JV, the VP once sent auditors from the local parent to go over the JV's books. Such a safeguard was useful in that it reinforced confidence in the JVGM; in addition, the financial reports are the most important document in the local parent's monitoring of the JV's progress. Another important area
for the VP of the local parent is the approval of the projects submitted by the JVGM. Through this mechanism the VP can make sure that the JV is not going to enter businesses where it competes with the local parent, and he can ensure that his company has sufficient raw materials to supply the JV.

In certain areas the local parent has direct inputs into the JV's affairs. It provides services in materials handling and recuperation of material. Also, it has used its clout on several occasions when dealing with other government agencies on behalf of the JV. Finally, and most importantly, the local parent can determine the quantities and the price of the raw materials supplied to the JV.

The MNC parent, on the other hand, being responsible for the JV's management and the transfer of technology has had more inputs into HAL's management process. The JV became successful for the MNC parent once it achieved a satisfactory return on net assets, i.e. after 1978.

There has always been a high degree of uncertainty associated with the JV at the MNC parent level, as the following quote by a MNC parent manager suggests:

"Usually, we develop a strategy for each of our businesses which has to be approved at corporate level. For HAL there is no such strategy because the JV does not fit the normal system. Contrary to our wholly owned subsidiaries, we do not know how to manage this JV. We are not sure about what the JV is supposed to do for us."
Our objective is that the business runs smoothly.

This uncertainty can be partly explained by the parent's inexperience in dealing with JVs, but it was compounded by the absence of a formal structure at headquarters to control HAL. Until 1979, the JVGM was reporting to a marketing manager. The lack of specific criteria of success and the lack of a formal reporting relationship have led the MNC parent to attend to the JV's problems in an ad-hoc fashion. Typically, it became involved when specific production and technology-related problems arose which could not be solved by the JVGM. The feeling shared among the MNC parent top managers was that nominating the JVGM compensated for the lack of majority ownership.

As the JV struggled its way towards profitability, the MNC parent realized that sending people to do some fire-fighting in Mexico on short-term assignments, installing a JVGM of their choice and discussing the JV's problems at the board meetings held every two months was not sufficient. Consequently, the MNC parent tightened the limits on capital expenditures in such a way that the JVGM could make sustaining investment decisions but could not grow. The Canadians decided that the JV should build a good track record before they put in more money. Additional pressure was put on the JVGM by formalizing his reporting relationship to headquarters by the creation of a new position at the VP level. By 1980, the MNC parent managers felt that the JVGM was putting together good investment proposals.
Another change in the MNC parent's handling of the JV's affairs was to send to Mexico a Canadian engineer to provide consulting assistance to the JVGM for a period of two years.

Finally, representatives of the MNC parent on the JV's board started to follow the macro-economic developments taking place in Mexico to develop a better idea of the potential growth of the market.

HAL illustrates the case of a JV where the parent criteria of success are not explicitly known ("the business runs smoothly", "the JV's ability to finance its own growth") and where the parent companies find it difficult to structure their control over the JV. Control tends to be exercised in an ad-hoc fashion. The parents respond to problems as they arise. The uncertainty created by this situation has prompted the MNC parent to establish strict limits on capital expenditures and to put pressure on the JVGM to perform.

This case also shows how a parent company adapts its control through a trial and error process. In particular, the experience of the MNC parent in HAL illustrates the learning process involved in deciding what to control and how to control.

2. Successful JVs Which Have Been Previously Unsuccessful.

This section examines two JVs (AP, PAC) which were successful in meeting
their parents' expectations, then failed to do so for a limited period of time, and then became successful again.

AP

AP was created in 1944 when the MNC parent took a 60% equity position in a troubled Mexican aluminum company. The technology and the managerial expertise brought by the MNC parent helped the JV to become a leading manufacturer of aluminum products in Mexico (See summary Table IV-4). In 1980, AP held the following market shares in its major product lines: 58% in sheet, 65% in foil and 20% in extrusions. Over time the growth rate in the product lines has been 12 to 15%. From the parents' perspective, AP has moved through the following stages in the JV success matrix:

```
     LP  U  S
MNC  /   \ /   \
     U   \
     S   (1)
        (2)
        (3)
```

In the first stage AP was successful in meeting the different expectations of the parents. The MNC parent wanted cash dividends
while the Mexicans wanted paper dividends since they were not taxed. In order to accommodate the two sets of expectations, the parents agreed to receive a 50% dividend and a stock split (paper dividend).

In addition to receiving stock dividends, the local parent, a consortium of Mexican investors, was interested in the JV's growth in sales and profits as well as in the JV's contribution to "the colour of Mexico". Among the members of the consortium were the owner of the original company, the president of one of the most successful examples of a Mexicanized company (who is very pro-Mexico), and two other leading figures of the Mexican business community: one very political, the other very growth-oriented. They exercised their control over the JV through the pre-board meetings which preceded the monthly board meeting. In fact, before the board met formally all issues had been discussed and conflicts solved over the phone or at a breakfast meeting. The main concerns of the Mexicans were:

- to put pressure on the JVGM to come up with investment proposals;
- to make sure that the JV satisfied the debt-equity requirements (very conservative);
- to review and question the JV's monthly operating results. The Mexicans' business experience helped them in asking the "right" questions.
<table>
<thead>
<tr>
<th><strong>YMC PARENT</strong></th>
<th><strong>LOCAL PARENT</strong></th>
</tr>
</thead>
</table>
| **CRITERIA OF SUCCESS** | - Until 1979 wanted paper dividends, now they don't.  
- Growth in Sales and Profits.  
- Contribution to Mexico |
| CEO (Montreal) | - Level of profitability that will ensure long-term economic viability of company.  
- Maintain organization of able and committed individuals.  
- Operating, technical and marketing excellence. |
| VP Finance (Montreal) | - Meet company profits: ROI.  
- Cash dividend.  
- Successful implementation of strategy. |
| VP Latin America (Rio) | - Operating results.  
- How well strategy is implemented: leadership in product lines.  
- After 1979: meet the Mexican's expectations. |
| **STRATEGICALLY** | **IMPORTAN ACTIVITIES** | **CONTROL MECHANISMS** | **SUCCESS IN CONTROLLING** | **JV SUCCESS** |
| - Investment policy and capital investment packages.  
- Financial management.  
- Formulation of strategic and operating plans.  
- Maintain trust between the partners (after 1979).  
- Quality of technology and efficiency in its use (volume and costs of production). | - Generation of new projects by the JVCH  
- Capital structure.  
- Forward integration. | - Board:  
- Before 1979, YMC could impose decisions.  
- After 1979, YMC needs to convince Mexican side.  
- Appointment of an Internal.  
- YMC's bonus tied to parent's results.  
- Participation of JV personnel to YMC's worldwide meetings.  
- Filter process (plans, appropriation requests: feedback, approval).  
- Need of technical staff from parent organization.  
- JVC's policies and procedures.  
- Staff services: finance, legal, technology, strategic planning, personnel and trading.  
- Training JV personnel.  
- Develop personal relationship with Mexican members of the board.  
- Regular meetings with JVCH.  
- Monthly and quarterly operating and financial reports.  
- Staffing in headquarters with former JVCH.  
- No objection of YMC parent before new projects and ideas are presented to the Mexicans.  
- Determination of JVCH's objectives. | Successful.  
Successful overall, but it took time to obtain from the YMC parent that it lost its majority position. | Successful.  
Not as successful as it could have been due to misalignment with the Mexicanization (lost opportunities).  
Now successful. |
From the MNC parent's perspective, three hierarchical levels were interested in the JV: the CEO and the VP Finance at the corporate level and the VP for Latin America headquartered in Rio de Janeiro (the reporting relationship is presented in Figure IV-1). The VP Finance was concerned with "how well the JV contributed to the MNC's corporate objectives". In particular, the JV had to meet the parent's profitability norms. The ROI, for instance, had to be more than 10% and to compare favourably with the average in Mexico and with what the MNC achieved in other countries. The VP for Latin America used more precise and detailed criteria to evaluate the JV's performance. He closely monitored the following ten indices: number of employees, overhead as a percentage of revenues, gross profit as a percentage of revenues, debt-equity ratio, net income, overheads, accounts receivable, capital expenditures, levered net income - as a percentage of equity and as a percentage of capital employed - and inventories.

The MNC parent's policy was to decentralize its activities. As a result, the JVGM was seldom told what to do in specific circumstances. However, control was maintained by the parent in two ways. First, what the JVGM could do was constrained by the resources allocated to him, and, second, the way he was going to use these resources had to be approved by his superiors. The MNC parent used a screening process whereby nothing concerning AP arrived at headquarters unless it had been approved by Rio. Rio's approval was also required before the JVGM could present any new project to the Mexicans.
The two most important documents sent through the filters were the strategic plan and the appropriation requests for specific capital investments.

Typically, a strategic plan was prepared in Rio for Latin America and was sent to Mexico. The plan for Latin America provided the JVGM with basic assumptions to formulate AP's 5-year plan. The Mexican plan was then presented to the VP in Rio and to his team of functional specialists (finance, legal, technology, strategic planning, personnel and trading). Rio could agree or disagree and make recommendations. At that stage the preparation of the plan became an interactive process. Once approved in Rio, the Mexican plan was sent to the VP Finance who had an assistant for Latin America (after 1977 a former JVGM of AP) to help him interpret the information he received. After the VP Finance had approved the plan it was sent to the VP Planning and then it was presented to the MNC's Executive Committee which acted as the last filter in the process (see Figure IV-1 for a summary).

The formal presentation to the MNC parent's Executive Committee was made by a Mexican team, led by the JVGM. The purpose of this presentation was twofold:
Figure IV-1: Steps in the approval of AP's strategic plan by the MNC parent
1. It enabled the MNC's top management to test how well the JVGM and his team had done their homework, and to make sure that they had not left any important consideration out. The Mexican team had to show that it knew and understood its competitive environment.

2. It enabled the MNC's top management to test the internal consistency of the plan, i.e. how well each of the moves proposed fitted with the intended strategy.

With respect to capital expenditures, the JVGM had the ability to undertake any project under US $100,000, if it had been approved in the budget, and under $25,000 if it was not in the budget. Projects up to $1 million had to be approved by the VP for Latin America, and over $1 million by the VP Finance. The most important document in the project approval process was the appropriation request. Its format, prepared by the MNC parent, included a half-page summary indicating the amount required, the timing of the project and the expected ROI, followed by a four-page analysis presenting the project (the rationale for undertaking it and for its timing) describing how it was going to be carried out and presenting the financial data with a sensitivity analysis. The appropriation request was used as a mechanism to teach the JVGM what kind of projects to submit and what kind not to submit. In addition, through the feedback received, the JVGM could learn what specific criteria had to be met to satisfy the MNC parent management.
The JVGM's adaptation was facilitated by the fact that he was coming from the MNC parent's organization. The MNC was very careful in selecting the JVGM. It had to be someone they could trust, who had been working with the company for a long time, who knew the system (people, policies, procedures) and who had a track record. Typically, after a five-year assignment in Mexico, the JVGM was promoted within the MNC's organizational network.

Evidence of the attention paid by the MNC parent to the selection of a JVGM for AP is demonstrated by the fact that the search for a replacement was usually undertaken two to three years before the appointment. Further, once in place, the JVGM is reminded of where his allegiance should be in various ways. First, his bonus is tied to the Mexican results (40%) but also to the MNC's overall results (60%). Second, he receives regular visits from the VP for Latin America or from members of the functional staff headquartered in Rio. Third, the VP in Rio sets the JVGM's objectives. Fourth, the JVGM is strongly encouraged to participate in the worldwide technical and business managers' meetings organized by the parent.

All of the mechanisms described above were still used in 1980, but a few changes took place in the MNC's involvement in the JV after it lost its majority position to the Mexicana in 1979.

During the 1960s and 1970s the Mexican members of the board became
increasingly upset because the JV lost a number of good opportunities
to grow as a result of not being Mexicanized. The Mexican government
refused to give the authorizations that the JV, as a
foreign-majority-owned company, needed before it could expand. The
Mexican members of the board brought repeated but unsuccessful
pressures to bear on the MNC parent to relinquish its majority
position. Finally, in 1979 the MNC parent decided not to buy into a
new issue of equity so that the Mexican portion of the JV's capital
became 51% and the MNC's 49%. The change in the ownership structure
was accompanied by the following changes at the board level:

- A new Mexican director joined the board

- The JVGM, who was chairman of the board, stepped down and a
  Mexican became the new chairman of the board.

The major implication of those changes was that the MNC parent could no
longer impose its decisions on the JV. The Mexicans had to be
convinced first. For the JVGM the changes meant that he no longer had
one boss but two: Rio and the Mexican board. Further, he found
himself under greater pressure to run the JV well because he could be
fired if he failed to meet the Mexicans' expectations.

To protect their interests, the MNC managers did not try to bargain for
a 'veto power' in exchange for a minority position. The feeling at
headquarters was that "if you can't agree with your partner, maybe you're in trouble". Rather, the MNC parent responded to the new situation by adopting two radically different modes of behaviour. The first mode involves the use of threats to influence strategic decisions; e.g. threats to withdraw people or to withhold the acquisition of new technologies by the JV. The second mode involves the development of a working relationship with the Mexicans. The MNC parent realizes that it has to be more sensitive to the expectations of the local owners. As a result, while ROI carried the greatest weight in the MNC parent's evaluation of the JV's performance, growth became more important after 1979. The MNC parent's commitment to the new emphasis is illustrated in AP's 1981 annual report which made growth its central theme.

Initiatives to develop a good working relationship with the Mexicans have been taken at two levels. For example, the VP Finance now goes to Mexico twice a year and spends 50% of his time dealing with business matters and 50% trying to get to know the country and to develop a personal relationship with the Mexican board members by being involved with them in outdoor or cultural activities. At another level the JVGM and the assistant to the VP Finance (the previous JVGM) have also taken concrete steps to bring the two partners together. For instance, they have managed to organize a formal presentation by the Mexican board to the MNC parent's board on the Mexican economy and the future of AP in this economy. This presentation came as a revelation to the MNC
parent's board members who were very impressed by the quality of the speakers. As a result of the presentation, the appropriation requests were approved more quickly than in the past.

Finally, the MNC parent tries to avoid being negative about suggestions made by the Mexicans. For instance, on one occasion the Mexicans wanted to enter the aluminum can business while the MNC parent was very reluctant. Rather than saying no to the Mexican board members, the MNC parent flew them to Brazil, showed them the kind of machinery required and told them the cost ($150 millions). This was sufficient to change the Mexicans' mind.

The case of AP illustrates a situation where the local partner went through a phase in which it could not promote its interests because it had no leverage to exercise control. The Mexicans had nothing to contribute to the JV other than a Mexican face, and as a result they were in a weak bargaining position with the MNC parent. Their bargaining position improved when they became the majority parent and as a result, were able to gain the MNC parent's commitment to the JV's growth.

Also, AP provides a good illustration of how a parent company adjusts the selection of the areas to control and the choice of control mechanisms to make sure that its interests in the JV are met.
PAC

PAC is the only company in Mexico to manufacture a petrochemical by-product used in the paint industry. Due to its quasi-monopolistic position, PAC holds a 95.5% market share, the remaining 4.5% being supplied by imports. The JV’s sales have been growing steadily over the years. From 6,376 tons in 1963, the JV’s sales increased to 27,400 tons in 1980.

Both parents have been very satisfied with the JV overall, except for a two-year period during which PAC incurred losses (see Table IV-5 for a summary). The JV has gone through the following stages on the JV success matrix:

```
  LP  U  S
MNC
  U   (2)
  S  (-1)  (3)
```

PAC is a JV between a US chemical company (49%) and one of Mexico's largest banks (51%). It was created in 1958, in response to a government ban on imports of the MNC parent's products. Convinced that the Mexican market had grown sufficiently large to justify an
investment, the MNC parent set about searching for a Mexican partner which was capable of meeting the high capital requirements of the project and which would not become involved in day-to-day operations. A bank was the logical prospect.

Managers of the Mexican bank found the project interesting, feeling that the MNC was an attractive partner with a good reputation, and therefore they agreed to the MNC parent's proposal. The bankers saw in PAC a good opportunity to diversify their portfolio. They wanted to protect themselves against the erosion of the value of money, and investing in an industrial venture provided such protection through the ownership of shares and assets. The bankers were also motivated by fiscal and policy considerations. From a fiscal point of view, the bank would pay lower taxes on dividends than on interest. From a policy point of view, the bank was interested in establishing a partner/client relationship with foreign companies.
<table>
<thead>
<tr>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
</table>
| **U.S. Headquarters:**  
- Achieve JV's mission: To continue a profitable growth in the Mexican market and maintain its position in selected foreign markets (i.e., maintain a ratio of 75% of sales in Mexico, 25% in export markets)  
- ROI  
- Dividends  
**President of Mexican holding company:**  
- Achieve mission  
- Economically viable (ROI)  
- Result of the two above: two partners maintain good relationship  
**Group Director in Mexican holding company:**  
- Achieve mission  
- Contribute to needs of Mexico  |  
- Achieve mission  
- Protection against erosion of money  
- Fiscal advantages  
- Does not want cash dividends  
- Growth and exports are more important than ROI |

**CRITERIA OF SUCCESS**

- Cost minimization: "Daily optimization of production" maintain high level of capacity utilization and technological efficiency  
- Product quality  
- Service to customers  
- Distribution in foreign markets  
- Supplies: quality, quantity, price  
- Expansion in capacity (new projects)  
- Security: environmental and inside the plant  
- Production capacity  
- Level of export  
- Financial structure  
- Pricing  
- Budget

**STRATEGICALLY IMPORTANT ACTIVITIES**

- Board  
- Technology transfer contract  
- Management contract  
- Appointment JVGM and financial manager (both on MNC parent's payroll)  
- JVGM's bonus tied to parent results  
- JVGM's participation to MNC parent's worldwide meetings  
- Feedback on development of plans, both strategic and operating  
- JV's policies and procedures  
- Design and approval of appropriation requests  
- Presentations to the Mexican parent in the US  
- Weekly meetings with JVGM  
- Weekly phone calls to JVGM  
- Visits to the JVGM and to the plants from US managers and technicians  
- Weekly, monthly and quarterly operating and financial reports  
- Staffing in parent with someone with experience in JV  
- Structured reporting relationships to MNC parent (screening levels)  
- MNC with organizational level in Mexico  
- JVGM needs no objection of MNC parent before presenting projects/ideas to local parent  
- MNC parent involved in finance, production, personnel decisions and sets JVGM's objectives  
- Board  
- Contract for administrative services  
- Monthly and quarterly reports  
- Approval of plan  
- Meetings with MNC parent  
- Meeting with JVGM every 6 weeks  
- Weekly phone calls  
- Involvement in financial decisions  
- JVGM reports to VP level in local partner organizational structure

**CONTROL MECHANISMS**

**SUCCESS IN CONTROLLING**

- Successful  
- Successful, except on one occasion in 1975 when a financing decision was implemented, the parent disagreed with.

**JV SUCCESS**

- Successful until 1976  
- Successful before 1976-1977  
- Successful after 1977  
- Successful until 1976  
- Unsuccessful 1976-1977  
- Successful after 1977
In addition, the project met several of the bank's investment criteria as presented by a Bank VP:

- it used Mexican materials
- it was a new company with no competition
- it was a medium-size project with a good growth potential and minimum risk, and
- the bank was in position to learn how to deal with its partner and to develop a trust relationship.

At the time the JV was set up, both parents agreed that PAC's mission would be "to continue a profitable growth in the Mexican market and to maintain its position in selected foreign markets". In practical terms, the above statement means that PAC has to maintain a ratio of 75% of its sales in Mexico and 25% in export markets. However, the above statement of PAC's mission does not reflect the difference in priorities of the parent companies. For instance, the bank's major concern is growth, while the MNC's is ROI.

The bank managers expect the JV to contribute to the priorities of the Mexican government. As a result, the minimum rate of growth acceptable is one that will allow PAC to meet the growing requirements of the Mexican market and at the same time to maintain its position in export markets. The export constraint is very important to the bank, because it is used to show the government how the bank contributes to the objectives of the development plan (promotion of exports).
The bank is involved in PAC's affairs in different ways. First, the JV has a contract for administrative services with the bank. According to this contract, the bank provides the JV with brokerage services, real estate advice, financial recommendations, help in obtaining new lines of credit and advice on sources of financing. Sometimes the bank offers financial services. It is not specified in the contract, but the JV gives preference to the bank to handle its accounts, chequing and other financial documents.

Second, the bank has a say in the JV's strategic decisions since it holds the majority of the votes on the board. However, it is important to note that the bank representatives do not want to use their majority position to solve conflicts. The attitude of an influential bank representative on the JV's board is that "it is important for PAC, and for the relationship between the two partners, that both parents agree on the most fundamental decisions". Consequently, it has been stipulated in the JV's by-laws that decisions such as contracts with suppliers, dividend policy, capital expenditures or financing need one more vote than the total held by the bank to be approved by the board. This stipulation prevents both parents from forcing on their partner a decision that the other does not agree with. Consensus has to be reached through bargaining, either directly between managers from each parent, or with the JVGM acting as an intermediary.

Since both parents want to avoid conflicts during the board meetings,
issues are resolved before they are presented to the board. Some issues have been resolved at a breakfast meeting, while other issues have taken several months of negotiations to be resolved. It was after a series of lengthy negotiations that a decision made by the board led to the JV's unsuccessful stage. In 1975, after 17 years of growth and profitability, the MNC parent proposed that the JV switch to a new production process which had been developed in the US. Switching to the new process involved writing off the old machinery and setting up new machinery at the cost of 35 to 40 million American dollars. The bank's top management failed to understand why a change was required and opposed the project for eight months before finally accepting it (on economic grounds). However, further disagreement arose over the financing of the project. The MNC parent was in favour of using long term debt, while the bank was in favour of increasing the equity. Reluctantly, the bank accepted the MNC's alternative. The bank's argument for the equity option was based on the political uncertainty in Mexico at the time due to the transition from one president to another, and on its conservative attitude towards capital structure.

A few months after the long term loan was secured came the devaluation of the Peso which raised dramatically the burden of the JV's debt and led to significant losses.

Following that episode, the bank VP to whom the JVGM reported became more involved in the JV's affairs. He now phones the JVGM every week.
and has a formal meeting with him every six weeks to monitor the JV progress and discuss specific problems.

From the MNC parent's perspective, expectations regarding the JV vary with hierarchical levels (see Figure IV-2). At headquarters, the Executive Committee and the International Department are primarily interested in ROI, dividends and on how well the JV carries out its mission. The C and P department, in addition to the above, compares the operating data of PAC to that of three US plants in which the same product is manufactured. In Mexico, the JVGM reports to two levels: the president for the MNC's Mexican operations (8 JVs and 4 wholly-owned subsidiaries) and a group director (who at the time of the study was the previous GM of PAC). The president of the MNC's Mexican operations uses three criteria to judge how successful PAC is:

- The JV has to achieve its mission agreed upon by the two partners. By attributing a particular mission to the JV, the president feels that the two partners have to commit themselves to recognize their commonality of purpose in the JV. It provides both partners with a common criterion of success.
- The JV has to be economically viable. The president considers the JV "as a profit centre, not as a tobb for a bigger purpose."
- There has to be a good relationship between the two partners. This last criterion is considered by D.P. as an effect, not as a reason, of the two other criteria.
Figure IV-2: PAC's reporting relationship to its US parent

EXECUTIVE COMMITTEE (US)

C' & P DEPARTMENT
- RD
- MFG
- MNTG

INTERNATIONAL DEPARTMENT
- PRESIDENT FOR MEXICO

GROUP DIRECTOR

PAC
From the perspective of the Mexican Group Director, the success of PAC is judged, in addition to the above, by the JV's contribution to the needs of Mexico (i.e. compliance with the priorities of the plan, and ability to grow as fast as the market to avoid the government letting a new firm come in), and by the ability of the JV to keep both investors happy.

The MNC parent controls the agenda of the board meetings and requires the JVGM to obtain its "no objection" before discussing issues with the bank's representative. Also, the MNC parent is responsible for the JV's management (management contract) and technology (technology transfer contract), the MNC parent nominates the JVGM and the JV's financial manager (with the bank's approval), both of whom remain on the MNC's Mexican subsidiary payroll, and the JVGM's bonus is tied to the MNC's Mexican subsidiary results in addition to the JV's.

The promotion of PAC's personnel is manipulated by the MNC parent at two levels. First, promotions from the Sales Manager level up need headquarters' approval. Second, the MNC's Mexican subsidiary may decide to move someone from PAC to another operation, or conversely promote to PAC someone from another operation.

Finally, the JVGM needs the no-objection of his superiors in Mexico for decisions regarding wages, security, personnel, and prices before he can implement them, and the no-objection of both Mexico and the US
headquarters for decisions regarding new investment, capital structure, financing and promotion of JV top managers.

The MNC parent is also involved in the JV's planning process. The Mexican Finance and Planning Departments provide the JVGM with the basic assumptions on which to develop his 4-year plan (inflation, exchange rates, GDP growth, population growth, etc...). Then the JVGM develops his own plan, one year in detail (monthly data) and four years, on a yearly basis. The plan and its basic assumptions (volume growth, prices, costs...) are presented to the Group Director who has to give his no-objection before the JVGM can go and make a formal presentation in the US. At the parent level the plan has to be approved by people from the C and P department. Then the plan of the JV is integrated with the plans of the other Mexican operations at the level of the president of the MNC's Mexican subsidiary.

As is the case with the planning process, the procedure for approval of the appropriation requests is very structured. Once the JVGM has had his yearly budget approved, he must send an appropriation request for each project he wants to undertake. The requirements of the MNC parent are very high for the appropriation requests. Typically, several drafts have to be prepared before a request is accepted. A request has to be signed by the president of the MNC's Mexican subsidiary and by the managers of five operating departments in the US: R and D, Production/Manufacturing, Energy and Materials, Employee, Environmental
and Legal. "Given the particular interests of each person involved in
the process, it is long and difficult to arrive at a request that
satisfies everybody". Sometimes the US headquarters send people to
Mexico to examine problems or to discuss a particular request.

The MNC parent puts pressure on the JVGM directly. The JVGM has to
send operating and financial reports monthly, quarterly and yearly.
These reports must not come with any surprises: all deviations and
problems must have been discussed with the parents beforehand. The
JVGM talks with the Group Director of D.P. every week. They are in
the same building and they have a weekly meeting to discuss security,
costs, sales, productivity and personnel. Managers from the US
operations also call the JVGM every week to see how things are going
(particularly with the technology).

Finally there are also contacts between representatives of the bank and
of the US headquarters. When the MNC parent wants to introduce new
machinery or has new developments concerning the technology of the JV,
it invites bank representatives to the U.S. to show them and explain
what is involved. Even if the bank representatives have little or no
knowledge about the technology, at least they have an opportunity to
see it and understand what it can do. Both parents recognize the
advantages of such presentations:

1- When it is important for the MNC parent to gain the bank's
agreement on a specific project, less time is spent in trying to convince the bank of the need to do it. The bank representatives understand better the project and get a better feel for what they were paying for.

2- These presentations are also useful, particularly for the bank, in developing a trust relationship between the two partners. (More contacts are established, people get to know and understand each other).

PAC illustrates a case where the MNC parent has been very successful in controlling the activities it has decided are important in promoting its interests. However, the mishap which followed the selection of long term debt to finance the new manufacturing process suggests it should have let the Mexican parent control the financing decision. The Mexicans had a better feel for the uncertainties existing in the country at the time and consequently were in a better position to evaluate the risks involved in the use of long term debt. The bank managers' failure to influence the financing decision led to the JV's losses.

3. Unsuccessful JVs.

This section presents the evidence on three unsuccessful JVs. The first JV (CT) had been terminated, the second JV (SON) had been turned around by the MNC parent but, nevertheless, the local parent wanted to
pull out, and finally the third JV (RUF) had been turned around by the MNC parent and the local parent had been legally deprived of his rights.

CT had been created in 1977 to participate in Mexico's growing hotel industry. The JV involved a large Mexican bank and a Canadian company with experience in hotel management. After two years of stagnation, and although it was profitable, CT was terminated by common consent of the two partners (see summary Table IV-6).
<table>
<thead>
<tr>
<th><strong>CRITERIA OF SUCCESS</strong></th>
<th><strong>MNC PARENT</strong></th>
<th><strong>LOCAL PARENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Until 1978:</strong></td>
<td></td>
<td>Dividends</td>
</tr>
<tr>
<td>- Reestablish parent's name and reputation in Mexico</td>
<td></td>
<td>Assets in form of hotels and land for development</td>
</tr>
<tr>
<td>- Make money through management contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>After 1978:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wanted no expansion on international markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Profits</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>STRATEGICALLY IMPORTANT ACTIVITIES</strong></td>
<td>Signing management contracts</td>
<td>Capital expenditures (purchase of land and hotels)</td>
</tr>
<tr>
<td></td>
<td>Operating efficiency</td>
<td>Capital structure and financing</td>
</tr>
<tr>
<td></td>
<td>Accounting system, hotel layout, competence of personnel</td>
<td>Overall, interested in broad general issues</td>
</tr>
<tr>
<td></td>
<td>Overall, interested in details</td>
<td></td>
</tr>
<tr>
<td><strong>CONTROL MECHANISMS</strong></td>
<td>Board</td>
<td>Board</td>
</tr>
<tr>
<td></td>
<td>Management contract</td>
<td>Weekly contacts (phone or meetings) with JWG</td>
</tr>
<tr>
<td></td>
<td>Appointment of JWG; marketing managers, hotel managers</td>
<td>Monthly and quarterly reports</td>
</tr>
<tr>
<td></td>
<td>JWG on parent's payroll</td>
<td></td>
</tr>
<tr>
<td></td>
<td>JWG's bonus tied to parent's results</td>
<td></td>
</tr>
<tr>
<td></td>
<td>JWG's policies and procedures</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Training JV personnel (hotel manager in Mexico City, controller and personnel at all levels)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Monthly and quarterly reports</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MNC parent involved in all decisions (signing contracts to disposing of excess cash)</td>
<td></td>
</tr>
<tr>
<td><strong>SUCCESS IN CONTROLLING</strong></td>
<td>Successful</td>
<td>Not successful</td>
</tr>
<tr>
<td><strong>JV SUCCESS</strong></td>
<td>Until 1978: Successful</td>
<td>Not successful</td>
</tr>
<tr>
<td></td>
<td>After 1978: Not successful</td>
<td>JWG terminated October 1980</td>
</tr>
<tr>
<td></td>
<td>JV terminated October 1980</td>
<td></td>
</tr>
</tbody>
</table>
During its short existence (two and a half years) CT had been through the following stages in the JV success matrix:

<table>
<thead>
<tr>
<th>LP</th>
<th>MNC</th>
<th>U</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td>U</td>
<td>(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S</td>
<td>(1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Originally the JV was successful in meeting the MNC parent’s criteria of success: to reestablish the parent’s name and reputation in Mexico after an illstarred adventure in a JV with a former president of Mexico and to make money through the management contracts that the JV would grant the MNC parent. A management contract gave the MNC parent responsibility for the JV’s day-to-day operations. Several JV employees came from the MNC parent’s organization, while others had been trained in Canada. The JVQM remained on the MNC parent’s payroll and his yearly bonus was tied to the results of the JV and to the results of the parent itself. The director of marketing and the hotel managers were also Canadians. The controller was Mexican but had been trained in Canada. In addition, all of the JV’s policies and procedures had been established by the MNC parent.

In 1978, the MNC parent faced serious problems in its domestic markets,
to the point that in August, under pressure from the board of directors, the president resigned. He was replaced by a new president who had no international experience at all and who did not care about foreign markets. Regarding the Mexican operation, the feeling at headquarters was that the projected returns did not justify maintaining it. As a result the MNC parent refused to invest more capital into CT, in spite of the fact that the JV was profitable and that both parents had recovered their paid-in capital. The JVGM and the local parent became very frustrated with the attitude of the MNC:

The new president had no idea of what kind of money could be made in foreign markets. He shut down the London office and got out of several management contracts. I had been developing potential expansion for (the MNC) in other Latin American countries. All the contracts I had worked on went to other hotel chains because they would not move.

The Canadians' attitude was: if it works in Canada it has to work in Mexico. All the decisions were made in Canada. I could not negotiate management contracts without their approval.

They were too arrogant, and it is too bad they had this attitude because the Mexicans had a very favourable predisposition to Canadians. They wanted to listen to Canadians.

The JVGM talked to headquarters two or three times a week. Most of the time it was to ask for answers to previous phone calls or telexes.

The lack of concern of the MNC parent towards CT was also shown by the fact that the new president, appointed in August 1978, made his first trip to Mexico in May 1979, and only because the JVGM had resigned.
Further, the Area VP, who was headquartered in Nassau, had only made a single trip to Mexico during the two years that the JV was in existence.

In turn the MNC parent's lack of concern for its Mexican operation led to a misunderstanding of the Mexican environment. The MNC parent did not want to bend to the Mexican way of doing business. For instance, the JVGM had been able to send 30,000 room/night to Canada, which was good business for the Canadian operation. However, the Canadians could not accept that some people cancelled their reservations at the last minute. Their attitude was: "you simply don't do that".

On the other hand, the local parent saw the JV as a means to own assets in the form of hotels and land for development. Also, the bank was interested in the dividends that the JV would pay out. During its two years of existence, CT, in fact, paid out all profits in the form of dividends. There was no reinvestment at all.

The local parent had extensive experience in the mining and manufacturing sectors, where it was involved in numerous JVs. However, it had no experience in the hotel business and counted on the MNC parent to stimulate the JV's growth. When the local parent realized that the Canadians were not going to expand, its interest in the JV died out.
The JVGM and the VP to whom he reported in the bank had developed a good relationship. They had weekly contacts (phone or meetings) to discuss the JV's affairs. On the other hand, there was no effort by the parents' executives to develop a relationship of any kind. They never talked to each other outside the board meetings. The board meetings themselves were very short. The only issues brought up dealt with the balance sheets, the profits and loss statements and what to do with capital. In those meetings the MNC parent was interested in details while the local parent was interested in broad issues such as capital expenditures and financing.

The lack of enthusiasm shown by the parent companies prompted the JVGM to resign and the JV was terminated shortly after.

CT illustrates the case of a JV which has failed because the parent companies were not sufficiently interested in making it successful. In particular, the MNC parent's lack of understanding of the Mexican market's potential and of the Mexican way of doing business, compounded by its control of all aspects of the JV's management, prevented the JV from taking off. On the other hand, the Mexican parent was unsuccessful in influencing its partner to invest more capital to enable the JV to grow and de facto exercised no control whatsoever.
RUF is the leading producer of a type of fixtures used in the construction industry (see summary Table IV-7). In 1980, the JV was in a transitory stage: the original JVGM, the Mexican parent, had been fired and the MNC parent was searching for a new partner, which would become the majority shareholder. Over time the JV has moved from a successful for the local parent/unsuccessful for the MNC phase to a phase where the parents' opinion was reversed:

<table>
<thead>
<tr>
<th>LP</th>
<th>U</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>S</td>
<td>(2)</td>
<td></td>
</tr>
</tbody>
</table>

Originally, the MNC parent exported the fixtures to Mexico and sold them through a local distributor. The JV was created in 1971 when the distributor proposed to the MNC parent that they pursue their relationship through a JV so as to meet a new government law prohibiting the importation of the MNC's fixtures. The Mexican distributor became the JVGM.

RUF quickly took a commanding market share for its types of products. However, in spite of its favourable position, it had been marginally
profitable, making losses in most of its first seven years in operation.

The problems associated with the JV became apparent in 1978. Until then, managers from the MNC parent believed that the JV's losses were due to start-up costs, and, after 1976, to the devaluation of the Mexican peso. In 1978 a new top management team was appointed in the MNC parent and, among its first tasks, it applied itself to developing an understanding of the situation in each of its seventeen foreign operations. In the case of Mexico, a report prepared by a local consultant led the MNC parent's Director of International Operations to conclude: "There was a lack of control from headquarters. We did not.
<table>
<thead>
<tr>
<th>CRITERIA OF SUCCESS</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before 1978:</strong></td>
<td>Contribution to parent transfer prices</td>
</tr>
<tr>
<td>Profitability</td>
<td>- Growth</td>
</tr>
<tr>
<td>Market expansion</td>
<td>- Dividends</td>
</tr>
<tr>
<td>After 1978:</td>
<td>- Market leadership</td>
</tr>
<tr>
<td>- Build long-term profit base (stable ROI)</td>
<td>- Achieve strategic and operating plans</td>
</tr>
<tr>
<td>- Achieve strategic and operating plans</td>
<td>- Identification of future growth opportunities</td>
</tr>
<tr>
<td>- Achieve JVGM's personal objectives</td>
<td>- Supplies and prices of components</td>
</tr>
<tr>
<td></td>
<td>- Accounting and Finance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRATEGICALLY IMPORTANT ACTIVITIES</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before 1978:</strong></td>
<td>- Monitoring JV’s results</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>- Accounting and Finance</td>
</tr>
<tr>
<td><strong>After 1978:</strong></td>
<td>- Organizational development: increase managerial depth</td>
</tr>
<tr>
<td>- Training and replacement of back-up people</td>
<td>- Market knowledge</td>
</tr>
<tr>
<td>- Distribution</td>
<td>- Salesmen productivity</td>
</tr>
<tr>
<td>- Manufacturing capability</td>
<td>- Manufacturing capability</td>
</tr>
<tr>
<td>- Reinvestment plans</td>
<td>- Reinvestment plans</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONTROL MECHANISMS</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before 1978:</strong></td>
<td>- Board</td>
</tr>
<tr>
<td>- Technology transfer contract</td>
<td>- JVGM was the local partner</td>
</tr>
<tr>
<td>After 1978:</td>
<td>- Board</td>
</tr>
<tr>
<td>- Technology transfer contract</td>
<td>- Local partner fired from the board of directors</td>
</tr>
<tr>
<td>- JVGM appointment</td>
<td>- JVGM appointment</td>
</tr>
<tr>
<td>- JVGM participation to parent’s worldwide meetings</td>
<td>- Feedback and approval of strategic plan</td>
</tr>
<tr>
<td>- Interactive involvement in the preparation of the operating plan</td>
<td>- Monitoring of the implementation of the strategic plan</td>
</tr>
<tr>
<td>- Monitoring of the implementation of the strategic plan</td>
<td>- JV’s policies and procedures</td>
</tr>
<tr>
<td>- Development of a personal relationship with JVGM</td>
<td>Design and approval of appropriation requests</td>
</tr>
<tr>
<td>- Visits from parent to JV</td>
<td>- Staff services (technical area)</td>
</tr>
<tr>
<td>- Monthly and quarterly reports</td>
<td>- Training of JV personnel: marketing, accounting</td>
</tr>
<tr>
<td>Reporting level in parent company (after 1978)</td>
<td>- Development of a personal relationship with JVGM</td>
</tr>
<tr>
<td>- Determination of JVGM’s objectives</td>
<td>- Determination of JVGM’s objectives</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUCCESS IN CONTROLLING</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Until 1978:</strong></td>
<td>Not successful</td>
</tr>
<tr>
<td><strong>After 1978:</strong></td>
<td>Successful</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JV SUCCESS</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Until 1978:</strong></td>
<td>Not successful</td>
</tr>
<tr>
<td><strong>After 1978:</strong></td>
<td>Successful</td>
</tr>
</tbody>
</table>
pay enough attention.

The report showed that the local parent had abused the confidence the MNC parent had put in him by engaging in dishonest practices. As JVGM, he accepted orders from clients in the name of RUF, but then had these orders subcontracted by three other firms he had created. As a result, his firms were making all the profit through the transfer prices and RUF was left with very small margins. Also, he had connected his companies’ electrical circuits to RUF’s meter and had incurred excessive travel costs and expenses.

The immediate response to the consultant’s report was to fire the JV’s key people and to give the consultant a two and a half month contract with the objective of selling the JV. No buyer could be found at a reasonable price and the uncertainty surrounding the future of the JV led to the departure of some good people. However, the Mexican consultant had prepared a second study on RUF showing that the JV had a good growth potential and recommended the MNC parent to stay in Mexico. More specifically, the study suggested that the JV be rationalized and made profitable before a Mexican parent be sought to take a majority position in the venture. The consultant noted that this would be easier to make the investment attractive and to get a good price for the shares. The MNC parent top management, impressed with the study, decided to make the money available if the consultant stayed as JVGM. The request was accompanied by an attractive compensation package and
the consultant accepted the challenge.

The major source of the problem was that the MNC parent did not pay enough attention to the JV. Given the limited financial and managerial resources available at headquarters to control the seventeen foreign operations, the MNC's involvement in RUF was limited to attending the board meetings and supplying manufacturing services in accordance with the technology transfer contract. According to the MNC parent's Director of International Operations, the board did not play its role of questioning the JVGM:

There is nothing wrong with a captive board which does not have any role in management, as long as the JVGM has a boss to whom he reports at headquarters. The key guy is the JVGM. As long as the person to whom he reports can put pressure on him and review his performance, things are in control. This was not the case in RUF.

Since the 1978 shake-out, the MNC's Director of International Operations has become the centre of the parent's control efforts. He talks to the JVGM two or three times a week and receives monthly reports. Weekly discussions, for instance, are about the financial manager who is leaving for another company or about a market research project on the number two competitor. Says the MNC's Director of International Operations:

Basically, I push him (the JVGM) to care about strategy, to look for acquisitions, to think about back-ups.

The MNC parent wants profits from the JV, but, more importantly, a
stable profit base. To be successful the JV needs to maintain its market leadership and "be able to identify an encouraging future outlook and long-term ROI". The MNC parent interest in the JV's future profitability explains the Director of International Operations' concern for activities such as planning and market research. It also explains the efforts he makes to try and modify the JVGM's short term orientation. The JVGM tends to worry about the monthly results.

There are three specific areas that the Director of International Operations wants to influence. The first is organizational development. Over time the Director has realized how difficult it is for the JV to keep good managers given what it has to offer (small company, not too well located, oldish building and offices).

I put pressure for replacement and back-up people. I am ready to lose profitability to make sure that this is done. I also put pressure on training, particularly at lower levels. I want training programs developed so that, for example, accountants understand the meaning of what they are 'doing'. I see in the training programs a tool to build employee loyalty (they are grateful to be able to understand what they do) and also to build a cohesive organization.

The second area that the Director of International Operations is concerned with is market knowledge:

I want to be sure that people in the JV understand their competitive environment, that they can identify the long-term trends. This is a way to force them to take into consideration the future in their decision-making.

The third area of concern is manufacturing:
I expect the JVGM to come up with the right kind of reinvestment plans. I want to make sure that the JVGM will have the required capacity on stream to satisfy the growing demand. I also want the JV to take appropriate actions to make sure that it remains cost competitive. Here again I am willing to lose some short-term profit in order to ensure the stability of the future profit stream.

The Director of International Operations controls the above areas by challenging the JVGM, making him justify his numbers and making sure that he has done his homework. In addition, the JVGM is evaluated by the MNC parent on the basis of his ability to achieve the plan and his personal objectives, and on the basis of his ability to talk about his problems (avoid surprises).

The planning process of the JV involves a five-year strategic plan, an operational plan and a yearly budget. The strategic plan is prepared in Mexico where it is presented to the top executives of the MNC parent. The Americans have some inputs and contribution but the JVGM is responsible for the results. The operational plan is prepared with the Americans, particularly with the MNC's financial manager.

The issues that the US parent cares about in the planning process are: sales (including new product lines), market penetration, personnel, appropriation requests and all needs to achieve the requirements (machinery, money, people). To be approved, the plan has to show how a long-term stable profit base is going to be developed.
The JVGM's personal objectives are tied to his bonus. They are formulated by the JVGM but need to be accepted by the Director of International Operations. The JVGM has to answer the following questions: what are your personal objectives? what are the things you want to get done? The objectives can include things like achieving the plan, completing market research, finding a new person for a specific position. Even if he achieves 95% of the financial results, the JVGM needs to accomplish "something else". Because the Director of International Operations and the JVGM have a good personal relationship, they can easily talk about the items on the list, particularly if the JVGM does not do anything about these items.

For the Director of International Operations, control over RUF is exercised through persuasion, a good relationship and the planning system. The JV RUF has been growing profitably every year.

The case of the JV RUF illustrates a situation where problems could have probably been avoided had the MNC parent controlled more carefully its JV. It also illustrates how the strategically important activities that a parent decides to control and the mechanisms used to exercise control can be related to a parent's criteria of success.

SON

SON is a medium-sized manufacturer of paints and related chemical
products for both consumer and industrial markets. SON started as the wholly owned subsidiary of a Dutch chemical company. It became a JV in 1970 when the Mexicanized subsidiary of a large US chemical company acquired 25% of SON's original equity. The Dutch had managed to gain a dominant position in the JV's market, reaching a 65% market share by 1970. However, between 1970 and 1978 the JV's market share fell to 21%. It had gone up again to 35% by 1980 (see summary Table IV-8).

From the parents' perspective, SON has moved through the following phases in the JV success matrix:

In the late 60's the Mexican parent was looking for a supplier of product D. Unable to find anybody in Mexico with the production capability, the Mexicans approached the Dutch parent, who had a good technology. Following short negotiations the two parents agreed that the Mexicans would receive 25% of the JV's equity in return for the financing of the plant and equipment requirements.

Until 1978, the MNC parent's criteria of success were dividends, royalties and profitability. These criteria remained unchanged in
spite of the acquisition of the Dutch chemical company (chemical MNC parent) by a Dutch government-owned company (government MNC parent) in 1972. The government MNC parent made no attempt during 1972-1978 to become involved in the chemical MNC parent's foreign operations.
<table>
<thead>
<tr>
<th>Criteria of Success</th>
<th>MNC Parent</th>
<th>Local Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Until 1978:</td>
<td>- Profits (margins)</td>
<td>- Ability of JV to supply the parent with product D</td>
</tr>
<tr>
<td></td>
<td>- Dividends</td>
<td>- Ability of the JV to supply the parent with data on market requirements for the resin they produce</td>
</tr>
<tr>
<td></td>
<td>- Royalties</td>
<td>- No dividends</td>
</tr>
<tr>
<td>After 1978 (New MNC owner):</td>
<td>- Growth (volume)</td>
<td>- Profitability</td>
</tr>
<tr>
<td></td>
<td>- Market share</td>
<td>- Growth</td>
</tr>
<tr>
<td></td>
<td>- No dividend</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Vehicle to look for other opportunities in Mexico</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Profits</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategically Important Activities</th>
<th>MNC Parent</th>
<th>Local Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Until 1978:</td>
<td>- Product selection (margin oriented)</td>
<td>- Marketing research, pricing</td>
</tr>
<tr>
<td></td>
<td>- Production efficiency (adaptation to Mexican conditions; temperatures)</td>
<td>- Purchasing</td>
</tr>
<tr>
<td></td>
<td>- Finance decisions</td>
<td>- Cost structure, particularly energy costs, interest costs, royalties</td>
</tr>
<tr>
<td>After 1978:</td>
<td>- Use maximum capacity (volume oriented) and avoid bottlenecks</td>
<td>- All finance decisions, particularly capitalization and financing</td>
</tr>
<tr>
<td></td>
<td>- Marketing (sales force management)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Delivery time</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Quality control</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Liquidity (collect A/R on time)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Hiring and motivation of JV's employees</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Control Mechanisms</th>
<th>MNC Parent</th>
<th>Local Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>- Technology transfer contract</td>
<td>- Board</td>
</tr>
<tr>
<td></td>
<td>- Appointment JVGM</td>
<td>- Weekly discussions with JVGM</td>
</tr>
<tr>
<td>Appointment quality control manager</td>
<td>- Appointment quality control manager</td>
<td>- Weekly, monthly and quarterly reports on JV's operations</td>
</tr>
<tr>
<td>JV's policies and procedures</td>
<td>- Meetings and presentations to Mexican partner</td>
<td>- Direct involvement in financial and marketing decisions</td>
</tr>
<tr>
<td>Meetings and presentations to Mexican partner</td>
<td>- Visits from MNC parent people to Mexico</td>
<td></td>
</tr>
<tr>
<td>Visits from MNC parent people to Mexico</td>
<td>- Monthly and quarterly financial reports</td>
<td>- Reporting level in parent's organization</td>
</tr>
<tr>
<td>Monthly and quarterly financial reports</td>
<td>- Direct involvement in production and finance decisions</td>
<td></td>
</tr>
<tr>
<td>Direct involvement in production and finance decisions</td>
<td>- Reporting level in parent's organization</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Success in Controlling</th>
<th>MNC Parent</th>
<th>Local Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful</td>
<td></td>
<td>Successful</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JV Success</th>
<th>MNC Parent</th>
<th>Local Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Until 1972: Successful</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972-1978: Not successful</td>
<td></td>
<td></td>
</tr>
<tr>
<td>After 1978: Successful</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Not successful</td>
<td>- Fear they don't get enough for the time and effort devoted to JV</td>
</tr>
</tbody>
</table>
The attitude prevailing among the chemical MNC parent managers was "let's take out from SON all we can". This attitude meant repatriating 100% of their share of the JV's profits and charging the JV with the highest royalties authorized by the Mexican government. A major reason for trying to maximize the royalty payments was that the Dutch government, in an attempt to promote the transfer of technology to developing countries, reimbursed the taxes paid on the royalties in Mexico. Another concern of the chemical MNC parent was the profitability of the JV's products. As a result, it drove the JV towards high margin - low volume products and away from low margin - high volume products.

The chemical MNC parent controlled the JV's production process by sending Dutch technicians to Mexico on temporary assignments as specified in the transfer of technology contract. Support from the chemical MNC parent was particularly important in the early years of the JV since the formulas and the manufacturing process needed to be adapted to local climatic conditions. Later, Dutch people were sent on routine trips or to solve specific problems when their help was sought by the JVGM.

The chemical MNC parent controlled the dividend payout through the JV's board. The Mexicans protested against the Dutch attitude of paying all profits in dividends, but not too strongly. Also, the chemical MNC parent directly influenced the JVGM to implement a high margin - low
volume strategy and to discuss financial matters with headquarters.

Between 1970 and 1978 the JV's market share fell abruptly from 65% to 21%. At the same time the JV's profits declined significantly and, in 1978, the JV did not make money at all (see Table IV-9).

Table IV-9: JV SON Sales and Net Profits 1974-1980
(in million Pesos).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>150</td>
<td>170</td>
<td>236</td>
<td>350</td>
</tr>
<tr>
<td>Net Profits</td>
<td>8.7</td>
<td>3.4</td>
<td>6.2</td>
<td>2.5</td>
<td>0</td>
<td>-10</td>
<td>27</td>
</tr>
</tbody>
</table>

The government MNC parent became increasingly concerned with the JV's results, and given the chemical MNC parent's inability to turn the JV around, it decided to take drastic measures. The government MNC parent became directly involved in the JV's affairs by appointing a new JVGM and two board members from its own ranks to replace managers from the chemical MNC parent. The composition of the board changed as follows:

<table>
<thead>
<tr>
<th>Representative from</th>
<th>Until 1978</th>
<th>After 1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local parent</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Chemical MNC parent</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Government MNC parent</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

The government MNC decided to stop milking the JV. A longer term view
was taken: the MNC parents' objectives were to grow and to regain market share. As a result the strategic orientation of the JV changed from margin to volume and production increased by 40% using the equipment available.

Following repeated pressures from the local parent, the Mexican agent was dismissed and the new JVGM carried out an assessment of the situation. The Mexicans also requested the creation of an executive committee to supervise the JV management, but the government MNC parent refused.

Once in place the new JVGM found that there was an easy-going mentality in the JV resulting from the former JVGM's fear of the Mexicans and his unwillingness to pressure them. So, the JVGM applied himself to restoring authority and making decisions. Among his first moves, he fired forty-five people and changed all of the JV's policies and procedures. Finding himself in an uncertain environment, he adapted the policies and procedures he was familiar with, those he was used to when in the government MNC parent. Also, tight controls were put on the sales people, given the importance of this task to regain market share: every visit had to be reported, salespeople had to participate in a weekly sales meeting held in Mexico City and specific controls were established on the way the salespeople managed their cars (avoid excesses, accidents, etc.). The weekly meetings are run by the sales manager but the JVGM often attends "to see how things are going".
The chemical MNC controls the quality of the JV's products through the appointment of a quality control manager. But the JV also uses the services of an independent Mexican company to do a second check because the quality of the inputs is much lower in Mexico than it is in Europe and in the US. (Quality is one of the key competitive weapons). Other important success factors are the salesforce and delivery time. There is no price competition.

Weekly reports are sent to the Mexican and Dutch parents on the orders, deliveries and margins for every product (actual/budgeted). The parents also receive quarterly results including balance sheets and profit and loss statements for the period and cumulative, as well as data on royalties, personnel, energy costs and interests costs.

The JVGM's reporting relationship in Holland is to the chemical MNC parent. However, he has a very close relationship with his government MNC parent. The JVGM feels rather independent from Holland because of the distance. He has more responsibility than his counterparts in Europe, as demonstrated by the higher limit on capital expenditures he has been granted; but, on the other hand, he faces more pressure during the three yearly board meetings. While a wholly-owned subsidiary manager reports only to the MNC parent's finance people, the JVGM has to report to the JV's board. The board meetings are extremely thorough and led in a very "official" way. Both parents question the JVGM on details and expect him to provide explanations. Specific
attention is given to the costs, the auditor's report and the budget. The JVGM feels that too much pressure is put on him during the board meetings and that two meetings would be sufficient.

Both MNC parents have been very satisfied with the JV's performance since the new JVGM came in. SON has been growing at 21% in a market growing at 10% and has been able to regain market share. The most difficult task for the JVGM is to convince the Dutch that the Mexican market is growing extremely fast and to motivate them to make investments. He feels that the Dutch, used to the stagnating European markets, find it difficult to understand what is going on in Mexico.

The local parent is interested in the JV on various accounts: as a customer, as a supplier and as a shareholder. As a customer, the Mexican parent depends on the JV for product D, SON being the sole manufacturer of that particular product. As a supplier, the Mexican parent is in a position to obtain first hand information on the market for a product which it is the only company producing. Finally, as a shareholder, the Mexican parent is interested in the JV's growth and profitability.

Through the JV's board the local parent has to approve most financial decisions. For instance, the JVGM cannot change the capitalization or go to bankers without the Mexicans' agreement.
In addition to the weekly and quarterly reports, the local parent requires monthly reports on finance, security, and tax payments, to inform its American parent.

The Mexican parent has inputs in the marketing area. The JVGM feels that he can go anytime to the local parent when he has "Mexican problems" such as interest rates, pricing, information on certain markets, etc. Managers from the chemical MNC do not like to see the JVGM going to the Mexicans. On the other hand, the Mexican parent has a very good relationship with the government MNC parent in another JV. As a result, it feels that it has to look after SON and phones the JVGM weekly.

The major reason for the local parent's dissatisfaction is that it loses too much time and effort with SON for the returns. The Mexican parent company has million-dollar investments and it likes to be the boss. Usually it wants to have the whole responsibility or nothing. Because of their dissatisfaction, the Mexicans have tried to sell their share of the JV to the government MNC parent for 35 million pesos. However, the Dutch were offering only 5 million. The significant difference between the two prices leads the JVGM to believe that the Mexicans are not really serious about selling.

SON illustrates a case where a change in the MNC parent's criteria of success has been accompanied by a change in the areas that a parent
controls and a change in emphasis on the control mechanisms used. Following successful implementation of those changes the MNC parent has been able to turn the JV around.

Also, the local parent's experience with SON shows that a parent company successful in controlling a JV may not be able to obtain a satisfactory return. The exercise of control involves costs (real and opportunity costs), and the benefits may not justify those costs. However, in this particular case, it seems that the local parent's dissatisfaction is due more to the fact that it is not the boss than to the benefits derived from the JV.

4. Successful JVs.

This section presents three JVs which have been considered successful by both parents since the time they were established.

QA

In 1978, a US hotel chain joined a large Mexican bank in a JV with the objective of managing hotels (not purchasing them). After two and a half years in existence QA was operating eight hotels and was planning to manage twelve by 1982 (see summary Table IV-10). The JV has been successful since its inception:
The original impetus for the JV came from the Mexican bank, when in 1974 it undertook a study to look for a partner to participate in Mexico's medium price hotel segment. It took the bank four years to complete the study and find a partner which met its rigorous criteria.

The bank had extensive experience in Mexico's luxury hotel segment through its participation in a JV with a major US hotel chain and through the ownership of shares in hotels operated by other companies. In addition, the bank owned 51% of the Mexican subsidiary of an international travel company with a worldwide reservation system.

In entering the medium price hotel segment, the bank wanted to diversify its portfolio, own assets and become associated with an international hotel company which could fill the hotels. When the Mexicans approached the MNC parent with a JV proposal the time was ripe. The MNC parent was coming out of a recession year and a new president, who felt that the company should go abroad, had been appointed. The commonality of interest between the two companies led to the creation of QA.
The partnership has proved very compatible: both partners want growth (although more from the bank side) and the two parents have developed a good working relationship. The JV's main reporting relationship is to the JV's board of directors, not to the MNC parent and not to the local parent. The board meets every three months, mostly in Mexico, sometimes in the US.
<table>
<thead>
<tr>
<th>CATEGORIES OF SUCCESS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td></td>
<td>Growth</td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td>Growth (vant more than MNC parent)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>JV as a tool to diversify parent's portfolio in hotel business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IMPORTANT ACTIVITIES</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation of management contracts</td>
<td></td>
<td>Hotels' occupancy</td>
</tr>
<tr>
<td>Reservations of hotel rooms</td>
<td></td>
<td>Financial matters: financial structure, financing</td>
</tr>
<tr>
<td>Management of the hotels under contract</td>
<td></td>
<td>Government relations</td>
</tr>
<tr>
<td>Marketing, advertising</td>
<td></td>
<td>Growth plan (identification of potential hotels to manage and financial pro-formas)</td>
</tr>
<tr>
<td>Cost controls</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONTROL MECHANISMS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td></td>
<td>Board</td>
</tr>
<tr>
<td>Technical service agreement</td>
<td></td>
<td>Executive committee</td>
</tr>
<tr>
<td>Advertising contract</td>
<td></td>
<td>Interactive involvement in preparation of plan and budget</td>
</tr>
<tr>
<td>Appointment marketing manager</td>
<td></td>
<td>Meetings and presentations to US parent</td>
</tr>
<tr>
<td>Feedback and approval of plans</td>
<td></td>
<td>Monthly and quarterly reports</td>
</tr>
<tr>
<td>Training of hotel managers and other hotel personnel</td>
<td></td>
<td>Reporting level in parent's organisational structure</td>
</tr>
<tr>
<td>Meetings and presentations to Mexican parent</td>
<td></td>
<td>Ability to make decisions involving the government</td>
</tr>
<tr>
<td>Monthly and quarterly reports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting level in parent's organisational structure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to make marketing decisions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUCCESS IN CONTROLLING</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful</td>
<td></td>
<td>Successful</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JV SUCCESS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful</td>
<td></td>
<td>Successful</td>
</tr>
</tbody>
</table>
It reviews the existing operations, profits, occupancy rates, sales activities and financial reports such as the balance sheets, the profit and loss statements, the budget and the financial plan. The issues that the parents raise during the board meetings deal with marketing trends, market share, control over costs, the profitability of the various departments (rooms, food...) of the hotels managed by QA and the plan.

Both parents make efforts to develop a relationship outside the board meetings. For instance, the president of the MNC invites managers from the bank whenever he holds a press conference. In addition, each parent is kept informed about what the other is doing since each parent is a minor shareholder of the other parent's company. Both parents decided to buy shares in each other's company as a symbolic sign of mutual commitment and trust.

Another factor which contributes to a good relationship between the two parents is that both partners know exactly what each is receiving from the JV in terms of royalties, management fees and payments for specific services. Further, both parents agree on their respective areas of involvement:

- The MNC parent is involved in reservations, marketing and hotel management
The local parent is involved in money matters, in helping the JV obtain loans in government relations and in the preparation of the plan and the computer proformas for the hotels.

The MNC parent, which has a management contract with QA, appoints the JVGM and the marketing manager (the only two foreigners in the JV). Also, it provides assistance with the reservations system and technical services, mostly in sales and advertising, as problems arise. Hotel managers hired by the JV are sometimes sent to the US for training. However, several do not need to because they have been pirated from the competition. It is difficult to find qualified management personnel in Mexico, to the point that it is the major limitation on the JV's growth. The two parents quickly realized and agreed that the JV's rate of growth had to be adjusted to the resources available. After the first year of operation QA was restructured, a new position was created (Director of Planning and Development) and an Executive Committee composed of the JVGM and the four functional managers was established. The bank pushed very strongly for the preparation of a 5-year plan.

The plan is prepared by the Executive Committee with the participation of the bank. A main objective of the plan is to identify potential hotels to manage and to prepare pro-formas for each hotel.

The local parent calls the JVGM everyday, not to intervene in management but only to give information ("are you interested in running
that hot?) or to obtain information ("how are things?"). The MNC parent calls twice a week. "Communications are maintained with the two parents not by necessity but simply to keep both informed and avoid surprises at the board meetings", notes the JVGM.

The amount of autonomy granted to the JVGM is agreed upon by the two parents. For instance, they both found that the JV was doing too much too quickly, relative to its capabilities. As a result, they decided to plan the JV's growth. However, the JVGM still has the power to make important decisions such as the negotiation of the terms of management contracts. Some have been signed for a 3.5% royalty on gross income while others for 3%.

Finally, the JV contract protects the MNC parent, which is in a minority position (49%), by requiring 80% board approval for decisions such as the nomination or removal of the JVGM and capital investments. The contract also spells out the specific responsibilities of each parent.

QA provides an illustration of a case where each parent recognizes the areas where it can contribute to the JV and where its partner can. In QA each parent controls the areas in which it is competent. The JVGM concludes: "The problem of each parent then becomes to make sure that the other does its job."
TOP, a two-year old JV, operates in the growing Mexican telecommunications industry (see summary Table IV-11). Both parents, one of Mexico's largest conglomerates and a leading Canadian telecommunications company, have been very satisfied with the partnership:

```
   L  P  U  S
M N C  \\
   U
   S   (1)
```

The idea for the JV came from the Mexicans. After the 1976 devaluation of the peso, the Mexican parent decided to diversify away from the steel business. In order to help them identify suitable new product-market areas, they had called upon the services of the Stanford Research Institute (SRI). The ensuing report recommended that the company enter the telecommunications business and suggested three potential partners. The Canadian parent was selected because it had the most advanced technology; it was already involved in a JV in Turkey and, as the report pointed out, it was a nice company to deal with. Consequently, the president of the Mexican parent talked about the project to the president of the Canadian company during a Conference
Board meeting in the US and, a few weeks later, they signed a letter of intent to assign a joint task force to investigate the opportunity and to come up with a business plan.

The first task force, composed of two Mexicans and two Canadian MBAs, floundered. As a result, a high-ranking marketing manager from the MNC parent's organization took over and prepared a first plan in two months. This plan served as a reference for the preparation of the JV contract. Six agreements were included in the final contract approved by the boards of the two parents:

1. A shareholders' agreement which protects the minority shareholder and gives him a veto right on major issues.
2. The articles of incorporation and the by-laws.
3. A professional services agreement according to which the Mexican parent receives a fixed fee on sales in payment for services in areas such as accounting, purchasing...
<table>
<thead>
<tr>
<th><strong>CRITERIA OF SUCCESS</strong></th>
<th><strong>MNC PARENT</strong></th>
<th><strong>LOCAL PARENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market share</td>
<td>Market share</td>
</tr>
<tr>
<td></td>
<td>Growth</td>
<td>Growth</td>
</tr>
<tr>
<td></td>
<td>JV as a tool to search for opportunities in Mexico and as a test before entering other Latin American markets</td>
<td>Development of a growth potential</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>IMPORTANT ACTIVITIES</strong></th>
<th><strong>MNC PARENT</strong></th>
<th><strong>LOCAL PARENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product quality</td>
<td>Operating decisions</td>
</tr>
<tr>
<td></td>
<td>Introduction new products</td>
<td>Financial decisions</td>
</tr>
<tr>
<td></td>
<td>Pricing decisions</td>
<td>New investments</td>
</tr>
<tr>
<td></td>
<td>Marketing, both inside and outside Mexico</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital expenditure decisions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>CONTROL MECHANISMS</strong></th>
<th><strong>MNC PARENT</strong></th>
<th><strong>LOCAL PARENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Board</td>
<td>Board</td>
</tr>
<tr>
<td></td>
<td>Technology transfer contract</td>
<td>Management contract</td>
</tr>
<tr>
<td></td>
<td>Export sales contract</td>
<td>Appointment of JVGM</td>
</tr>
<tr>
<td></td>
<td>Supplier contract</td>
<td>Involvement in formulation of strategic and operating plans</td>
</tr>
<tr>
<td></td>
<td>Feedback and approval of plans and budgets</td>
<td>JV's policies and procedures</td>
</tr>
<tr>
<td></td>
<td>Monitoring of implementation of operating plan</td>
<td>Approval of appropriation requests</td>
</tr>
<tr>
<td></td>
<td>Approval of appropriation requests</td>
<td>Meetings and presentations to the MNC parent</td>
</tr>
<tr>
<td></td>
<td>Development of a personal relationship with local partner management</td>
<td>Phone calls to JVGM</td>
</tr>
<tr>
<td></td>
<td>Visits from MNC parent to Mexico</td>
<td>Monthly and quarterly reports</td>
</tr>
<tr>
<td></td>
<td>Regular formal meetings with JVGM (weekly)</td>
<td>Reporting level in parent's organisational structure</td>
</tr>
<tr>
<td></td>
<td>Monthly and quarterly reports</td>
<td>Handling of government and labour relations</td>
</tr>
<tr>
<td></td>
<td>JVGM reports to a representative of MNC parent in Mexico</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ability to make export, sales and production decisions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>SUCCESS IN CONTROLLING</strong></th>
<th><strong>MNC PARENT</strong></th>
<th><strong>LOCAL PARENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Successful</td>
<td>Successful</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>JT SUCCESS</strong></th>
<th><strong>MNC PARENT</strong></th>
<th><strong>LOCAL PARENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Successful</td>
<td>Successful</td>
</tr>
</tbody>
</table>
4. A technical agreement with the MNC parent which states the conditions of the transfer of technology.

5. A supplier agreement for component parts with the MNC parent.

6. A marketing agreement with the MNC parent according to which the MNC becomes the international marketing representative for the JV.

The degree of precision in the terms of the contract is a reflection of the parents' commitment to the JV. Before the contract was signed, managers from the two parents had numerous meetings to arrive at a consensus regarding the JV's objectives and the role of each parent in the JV. For instance, both parents agreed that the JV should be evaluated on the basis of its ability to grow and to meet its budgets.

Further evidence of the MNC parent's commitment to the JV is given by the appointment of the manager who prepared the JV's plan to a three-year term in Mexico. His major responsibilities include facilitating the relationships between the two partners, helping the JV develop markets for its products, monitoring the start-up of the JV and identifying new opportunities for the MNC's products.

The MNC parent was particularly interested in the opportunities offered by the growing Mexican markets for telecommunications products because its traditional US and Canadian markets were maturing. As a result, the Canadians wanted the JV to gain a significant-market share and to
establish a good reputation in order to facilitate the introduction of other products in Mexico.

TOP competes for market share on the basis of technology and product specifications, not on price. The MNC parent wants the JV to meet the competition; it does not want to be a price leader. As a result, the MNC parent changes the JV for component parts on the same basis as the "most favoured licensee".

The MNC manager headquartered in Mexico meets weekly with the JVGM to review operating results and monitor the implementation of the plan. He also participates in the promotion of the JV's products to major Mexican customers. On the other hand, managers from the MNC's headquarters are hardly involved in the JV's affairs. They attend the board meetings and meet with representatives of the local parent. The key link in the control exercised by the MNC parent is the manager headquartered in Mexico. For instance, the MNC parent does not have a Latin America strategy. Top management's attitude is that they should be in Mexico to get a piece of the Mexican action. This attitude is due to the fact that the managers to whom the MNC parent's manager headquartered in Mexico reports "have too many things on their minds" (see reporting structure Figure IV-3).

The Canadian VP receives monthly reports and the MNC representative in Mexico simply tries to avoid surprises. The MNC parent has no formal
way of dealing with foreign operations. The philosophy is not to worry about control. However, top management recognizes that "a wholly-owned subsidiary is nice, easy, comfortable to manage, while a JV can be frustrating when there are lots of levels".

The MNC representative in Mexico believes that the Canadians should ask themselves "what do we want to do internationally?" rather than going to Mexico in response to short term problems faced in Canada. The parent should look at Latin America as a whole and not at one country independently of the others. However, the development and implementation of a Latin America strategy requires that a very senior person at headquarters be responsible for that and only that.
Figure IV-3: Reporting relationships to the parents, JV TOP
The lack of an appropriate structure at headquarters to manage the parent's international operations makes the role of the MNC's representative in Mexico all the more important.

On the other hand, the local parent is primarily interested in the growth potential of the JV. The Mexicans expect that their share of TOP's earnings will contribute to reduce the cyclical effect in their original businesses. Also, since they have been growing at an annual rate of 50% in current terms between 1974 and 1980, they expect the JV to grow at a high rate as well.

Another important criterion of success is the JV's ability to meet its budgets. However, this objective has not been met in the JV's first two years of existence. As a result, the local parent, acting on the request of the MNC parent, replaced the JVGM.

The local parent handles all government-related problems and labour relations for the JV. It is directly involved in the JV's planning process and remains constantly in contact with the JVGM through periodic phone calls. Also, it sends its corporate auditors to monitor the monthly and quarterly financial statements prepared by the JV.

Finally, the local parent organizes at least two yearly meetings with the MNC top management in order to maintain a good relationship and avoid problems regarding TOP. Besides TOP, the local parent is
involved in 14 JVs and has developed a formula to successfully manage
JVs. The formula is to manage the JV and to let the MNC parent use the
board to manage the main issues. In the case of TOP it allows the MNC
parent to handle technology-related matters and to provide marketing
support because it lacks the knowledge and skills required to produce
and sell the JV's products. All other functions are under its
umbrella.

TOP illustrates a case where the MNC parent has no idea of how to
control its JV. However, the issue has been successfully resolved by
the creation of a temporary structure: the appointment of a
representative to Mexico for a three-year period. The responsibility
for deciding what to control and how to control has been delegated to
this manager. The main issue is what will happen when he goes back to
Canada.

TOP is also interesting because it is one of the three JVs in the
sample which has been assigned a common set of objectives by its two
parents. In TOP the allocation of responsibilities has been discussed
at length between the two partners and the arrangement is such that
each parent controls areas where it is competent.
IRSA

IRSA is a highly successful JV operating in the petrochemical and chemical industries. It was created in 1973 as a result of the merger between the wholly-owned Mexican subsidiary of a large US chemical company and a rapidly growing family-owned Mexican company. Because the contribution of the Americans was greater, it was necessary to bring in another Mexican investor, a large conglomerate based in Mexico City (see summary Table IV-12). In 1986 the ownership structure was as follows:

- MNC parent 39%
- Local parent 38%
- Original Mexican owners 14%
- Stock exchange 9%

All parties have been extremely satisfied with the JV and its results since it was first established.
<table>
<thead>
<tr>
<th>CRITERIA OF SUCCESS</th>
<th>NOT PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Until 1978:</td>
<td>- Growth</td>
<td>- Growth rate (M.D. industry average)</td>
</tr>
<tr>
<td></td>
<td>- Earnings</td>
<td>- Market share</td>
</tr>
<tr>
<td></td>
<td>- No dividends</td>
<td>- Dividends</td>
</tr>
<tr>
<td>After 1978:</td>
<td>- Optimize long-term shareholder's value</td>
<td>- Contribution in Mexico</td>
</tr>
<tr>
<td></td>
<td>through consistent real growth in earnings</td>
<td>- Operating efficiency</td>
</tr>
<tr>
<td></td>
<td>and ROE</td>
<td>- After 1980, achievement of corporate strategy will become an increasingly important criterion</td>
</tr>
<tr>
<td></td>
<td>- Conduct business in ethical, lawful, responsible manner</td>
<td></td>
</tr>
<tr>
<td>STRATEGICALLY</td>
<td>- Provide a climate in which people can grow and stay in business</td>
<td></td>
</tr>
<tr>
<td>IMPORTANT ACTIVITIES</td>
<td>- Fit between realized and intended strategy and budget</td>
<td></td>
</tr>
<tr>
<td>Until 1978:</td>
<td>- New projects</td>
<td>- Budget, financial plan</td>
</tr>
<tr>
<td></td>
<td>- Technological leadership</td>
<td>- Government relations</td>
</tr>
<tr>
<td></td>
<td>- Budget</td>
<td>- Management development</td>
</tr>
<tr>
<td>After 1978:</td>
<td>Add to the above</td>
<td>- After 1980, the strategic plan, the operating plan and the investment program will become increasingly important</td>
</tr>
<tr>
<td></td>
<td>Strategy formulation and implementation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Dividend and D/E policies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Management development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Maintain good relationship with the Mexicans</td>
<td></td>
</tr>
<tr>
<td>CONTROL MECHANISMS</td>
<td>Until 1978:</td>
<td>- Board, executive committee</td>
</tr>
<tr>
<td></td>
<td>- Board, Executive committee</td>
<td>- Interactive formulation of budget and financial plan</td>
</tr>
<tr>
<td></td>
<td>- Approval budgets, appropriation requests, plans</td>
<td>- Approval of plan, budget</td>
</tr>
<tr>
<td></td>
<td>- Monthly and quarterly financial reports</td>
<td>- Implementation of operating through feedback on monthly operating reports (20 indices)</td>
</tr>
<tr>
<td></td>
<td>- Veto right to decision-making areas</td>
<td>- Staff services: Finance, labour relations, government relations, computing, fiscal and legal services</td>
</tr>
<tr>
<td></td>
<td>- Staffing</td>
<td>- Training JV personnel</td>
</tr>
<tr>
<td></td>
<td>- Technology transfer contract</td>
<td>- Regular phone calls to JVGM</td>
</tr>
<tr>
<td></td>
<td>- Reporting level in Mexico</td>
<td>- Monthly and quarterly financial reports</td>
</tr>
<tr>
<td>After 1978:</td>
<td>Add to the above</td>
<td>- Progress reports on projects</td>
</tr>
<tr>
<td></td>
<td>Interactive participation in plan formulation</td>
<td>- VP local parent, former top manager in JV involvement in personnel decisions</td>
</tr>
<tr>
<td></td>
<td>- Plan implementation: feedback on &quot;strategy papers&quot; and progress reports on projects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Staff services: technology, new plants</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Training JV personnel: market research, auditing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Develop personal relationship with local parent and JV management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Visits from headquarters</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- VP at headquarters committed to the JV</td>
<td></td>
</tr>
</tbody>
</table>

SUCCESS IN CONTROLLING

<table>
<thead>
<tr>
<th>Until 1978:</th>
<th>Not successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>After 1978:</td>
<td>Successful</td>
</tr>
</tbody>
</table>

JV SUCCESS

| Successful | Successful |
In entering the JV both manufacturing companies saw an opportunity to overcome the limits to growth they faced at that time. On the one hand the US subsidiary could no longer grow following a government law requiring firms in the secondary petrochemical field to be at least 60% Mexican owned. The US subsidiary had lost various opportunities after the law had come into effect because it was not Mexicanized. On the other hand, the Mexican company had reached a stage where it needed outside sources of capital and technology in order to maintain its historical growth rate.

The US parent had examined a large number of alternatives that met the criteria of Mexicanization and found that the number of potential partners was limited. There were few companies which shared the Americans' management philosophy. The Mexican family-owned company was an exception. Both administrations had very similar managerial philosophies and both realized the congruence of their interests in terms of their objectives and of the complementarity in the product lines. Managers from the two companies took the merger project to the conglomerate's top management and an agreement was signed after six months of negotiations.

The president of the Mexican family-owned company became the JVGM, and he selected the best personnel from the two companies to remain in the JV. As a result, 60% of the JV management came from the MDC parent's subsidiary and 40% from the Mexican company. At the plant level the
original people remained in their positions.

During the early years of the JV the objective was to respect the groupings of the original companies. At the time of the merger the US subsidiary was in transition from a functional to a multidivisional structure (chemicals and plastics divisions), while the Mexican company had just adopted a multidivisional structure (laminates, adhesives and paints, and resins divisions). There was no plan to integrate the various divisions.

The parent companies were little involved in the actual management of the JV. The local parent did not understand the JV's business, and managers from the MNC parent tried to interfere at the beginning, but the Mexicans would not allow them to. The JVCM explains:

> My philosophy and the local parent's is to guarantee the success of the operation. To achieve this, we feel that the control of the JV must be in Mexico and that the management of the JV must essentially lie in the hands of Mexicans. I have nothing to do with (the MNC parent). I report directly to the board and to the executive committee. I have the ability to choose my sources of technology and buy what is the best in the market. For example, (the MNC parent) sells technology to produce phenol but I bought the one from British Petroleum. I have total responsibility for capital expenditures up to 10 million pesos per project and 50 million pesos per year. The executive committee has authority to approve projects between 10 and 50 million and the board projects above 50 million pesos.

None of the parents had a clear set of expectations. Both wanted growth and earnings, and as long as the year-end numbers looked good,
both parents were satisfied. Control was mainly exercised through the board, which met every three months, and the executive committee, which met monthly. At those meetings the MNC parent was primarily concerned with technological leadership and new projects. In spite of its minority position, the MNC parent was protected by a veto right in the following areas:

- dividend payment above 50% of profits
- long-term debt above the normal amounts
- major investments for expansion
- acquisitions and mergers
- issue of preferred shares
- purchase or sale of a business
- issue of bonds
- any contract outside the purpose of the JV
- change in equity
- modification of the status
- extension in the duration of the company
- early termination of the JV
- change in nationality
- transformation of the company
- change in the purpose of the company
- schedule of the board meetings.

On the other hand, the Mexican parent used the board and executive committee meetings to discuss budgets and financial plans.
The early years of growth and high profits were not without difficulties. Between 1971 and 1975, IRSA underwent constant organizational changes. The merger of the two original structures led to duplication of responsibilities, unclear allocation of authority and, as a result, to numerous conflicts among staff managers. Conflicts arose over transfer prices, the decision-making process was very unclear in some divisions, all five divisions had very large numbers of product lines and there was an impression that the company was too diversified.

In order to solve these problems, the JVGM brought in outside consultants who suggested major changes in the staff structure in 1971, 1974 and 1975, and in the divisional structure in 1975. Most of the problems which arose in that period were dealt with independently of each other: "There was no attempt to integrate them to a strategy".

At the board meetings the parents were complaining that they did not understand the company. They could not have a complete picture of the company: every year structural changes were presented to the board as well as new businesses that IRSA had entered. After discussing the parents' concerns with the consultants, the JV management decided that the solution involved a formal effort of strategic planning. It took two years to develop a concept of corporate strategy which was presented to the board in 1976. Previously, board meetings lasted two hours and focussed on financial projections. In 1976 the meeting took
a whole day and dealt with the parents' expectations, IRSA's strategy and the new structure (5 divisions, 9 SBUs, 27 BBUs).

Other than profits the JV management did not know what the expectations of the parents were so they carried out a study of internal documents of both companies, annual reports, speeches by top managers. They presented their views of the parents objectives to the board and both partners clarified their expectations by adding things or adding others to the list prepared by IRSA. Noted a top manager from the JV:

"After the exercise both parents felt that they had determined the corporate objectives. Some objectives were divergent, but it was not difficult to reconcile them. For instance with respect to profits, agreement had to be reached as to what is more important, size of profits or ROI. The Mexican parent favoured the first while the MNC parent was concerned with the second and put priority on margin. The only way to match these two views was to have the partners agree on the kind of investment growth they saw for the JV."

The presentation of the strategy, however, came as a shock to the MNC parent. IRSA had developed a strategy that, "for necessity of the country and the reality of the markets it competed in", had to be different from the MNC parent's. For the first time the Americans realized that IRSA was different. Two key aspects in the MNC's strategy are raw materials integration and proprietary technology. IRSA cannot base its strategy on the same factors because the government is the sole supplier of raw materials and because the JV has not reached a stage where it can do basic research. The JV has a
formal program of assimilation and development of technology but it does not have the talent required to put together a research team.

The MNC parent was confused as to what IRSA was trying to do:

They were not sure whether the JV was going to pull out of some products. They were concerned with profits but also with products and strategy... they wanted to see IRSA as a wholly-owned subsidiary, which it was not.

In order to deal with this situation, the JVCM asked people from the MNC parent to come and participate in the strategy formulation effort. As a result the MNC parent sent people to Mexico to spend some time working with the corporate planning team in IRSA, until they understood the strategy at the business level and the logic of the corporate strategy.

After 1978, the MNC parent's attitude towards the JV changed. In that year a new management team came into power at headquarters; "People in St-Louis started talking about IRSA". The impact of IRSA on the MNC's consolidated results had become significant and the parent had had a disastrous JV in Spain "as a result of not paying enough attention". The new attitude was to become more involved in the JV's affairs while attempting not to interfere.

The increased attention paid to IRSA led the MNC parent to formulate a formal set of expectations in an interpal company document. The
The MNC president for the MNC's Mexican operations describes the content of the document in the following terms:

The expectations include no numbers (it is IRSA's problem) but suggest what we care about. Our approach consists of not telling the IRSA people how to run the business.

The first objective is to optimize long-term shareholders' values through consistent real growth in earnings and return on equity. This involves technological leadership and cost efficiency. We accept that IRSA enters different markets unknown to us as long as they use the best technology in the world. For example, at one point in time IRSA wanted to buy some software. I used the MNC parent's clout and know how to make sure that IRSA managers had done their homework before submitting their proposal. I talked to the company that made the software, and also to users. I wanted to see if it made sense for IRSA to get the software they wanted from that particular supplier.

Second, we want IRSA to pursue financial and D/E policies which minimize financial risk. The MNC parent does not want to see the JV overextended.

Third, we want to move into the future in an orderly manner through long range strategic plans. We want IRSA to establish a corporate direction for a limited number of growth programs and allocate resources accordingly. This means: concentrate on your strengths and get rid of the losers. But the Mexicans have a more paternalistic view of management, and if they get rid of a particular business, it will have an immensely negative impact on the other businesses. Also, the Mexicans see it as a social obligation to grow and create employment.

In addition, the MNC parent expects the JV to "conduct business in an ethical, lawful, responsible manner" and finally to "provide a climate in which people can grow and stay in the business". The Americans want the JV to have the best people for the tasks involved. Over time the
MNC parent's increased involvement has taken various forms:

(This MNC parent's own management style has had some influence on IRSA. Headquarters given a rough time with appropriation requests: they just do not want to rubberstamp them. So they sit down with IRSA people and talk about the businesses. They also asked for "strategy papers" to understand what each business was doing. Then, it was easier to see if a particular project did or did not fit with a strategy. At the beginning the people in IRSA did those papers just for (the MNC parent) without understanding how useful they could become. They thought it was more paperwork. The problem was with the institutionalization of strategy. There is a difference between knowing something and being able to put it in a condensed manner. People in IRSA felt they were asked to do something they already knew. Now IRSA top management understands the purpose of the strategy papers but I think that the SBU guys are not convinced yet.

The strategy papers are used by the MNC parent in two ways. They are used to influence the JV by providing feedback to the SBU managers and "they constitute a framework as to how much information to ask and avoid dumb questions". The strategy papers help the MNC parent to focus on key issues and follow what is going on. This is particularly important for the president of the MNC parent's Mexican operations whose biggest problem in relation to the JV is "to decide how to get to know enough to provide instructive help and criticism without becoming a nuisance".

On projects the MNC parent receives "progress reports". Sometimes the Americans want specific pieces of information, and the president or the MNC's Mexican operations is careful not to lack sensitivity to IRSA
of view:

we understand that these guys have very heavy workloads.
So when headquarters asks for something and IRSA says
okay but not now, we are patient...

The MNC parent's objective is to maintain a cooperative attitude. They
cannot see, at this stage, the Mexican getting against them. "There
have been no major conflicts. Just minor disagreements". One such
disagreement arose over the renovative process of a diversifying
business which involves getting rid of certain businesses. The MNC
parent would do it more quickly, although over time they have been
successful in influencing the JV, particularly by providing feedback
through the "strategy papers". In one instance the MNC parent wanted
the JV to divest from a business which was not profitable. On the
other hand, IRSA management was very reluctant because that particular
business was one of the original businesses of the family-owned company
and there was an emotional commitment to it. Intractable discussions
followed without any change in the status quo. The MNC parent then
asked the SBU manager in charge of that particular business to provide
them with a "strategy paper". The paper was presented to the people in
the local parent who, in view of the analysis, decided that the JV
should divest from the business. The two parents, going against what
the JVGM wanted to do, were successful in influencing him. As the
president of the MNC's Mexican operations put it:

It is easier to show them why to get out of a business
when the analysis of a strategy paper already suggests
it.
Finally, the MNC's increased involvement in the JV is also shown by the services they provide to the JV and by their concern with the relationships between people. In the area of services for instance, IRSA once asked for help in market research. So two people from IRSA were sent to St. Louis because the MNC parent has lots of expertise. The JV was not charged for the service. Another area where IRSA was weak and the MNC parent provided training was internal auditing. But since that training was particularly costly, IRSA was charged for it.

In terms of the relationships between people, the MNC parent has become more aware of the need to maintain friendships that had been developed in the sixties: "Now (the MNC parent) makes an effort and spends money to maintain these relationships". Also the president for the MNC's Mexican operations has been working on getting headquarters' commitment to the JV, particularly through the executive committee and the board. The VP comes to Mexico at least ten times a year and is in a key position to influence the JV through the executive committee and the board. The VP is the chief salesman for IRSA in St. Louis, and if he was not there it would be more difficult for headquarters to understand how to influence the JV. According to the president of the Mexican operations, to exercise influence "it is critical to have someone with credibility to defend or inform on the JV at headquarters".
From the local parent's perspective the expectations are much more specific. For instance the minimum growth rate acceptable is the industry average. Also, it monitors closely IRSA's operating efficiency through monthly reports it requires from the JV. Those reports include data on sales, profits, profitability, costs, accounts receivable, inventories, working capital, foreign exchange and personnel (21 indicators in total).

Managers from the local parent participate in the preparation of the JV's budget and financial plan. The parent has a very good reputation in the Mexican financial community and is able to facilitate access to outside funds. Another area where the local parent has important inputs is personnel. The Mexican parent provides the JV with services in labour relations, in training and is directly involved in personnel decisions concerning IRSA's top management.

The local parent's control over the JV is facilitated by the geographical proximity of the offices (5 minutes walking distance) and by the fact that the local parent's VP of the chemical division is a former top manager of the JV.

So far, the local parent's involvement has been concentrated in areas where it has a distinctive expertise: finance, government relations, personnel. In 1980, the JV's ability to implement its strategy is becoming more and more important, and the local parent's management
main concern is to allocate managerial resources to control this aspect of the JV's management. Notes the VP of the chemical division: "We need to find time and expertise to control the implementation of the JV's strategy".

IRSA illustrates a case where, at the beginning, neither of the parents had a clear set of expectations regarding the JV's objectives and where control was exercised through formal channels, namely the JV's board and executive committee. Over time, the two parents lost touch with what was happening in the JV and as a result, they both became more involved in the JV's affairs. The first step in clarifying the situation was to assign a common set of objectives to the JV. In the process of formulating these objectives, the two parents became more aware of their own expectations, as well as of their partner's.

Once the parents had developed their criteria of success they were in a position to decide what to control and how to control. A major factor in selecting what to control, for the MNC parent, was the fact that it could not tell the Mexicans directly what to do so indirect mechanisms such as the strategy papers had to be found and implemented.

5. Summary

This chapter has presented the data collected on the Mexican JVs in the form of ten case studies. These studies serve as the basis for the analysis in the following chapters. It is important to note that they
have been written so as to support the framework on the relationship between parent control and JV success discussed in chapter VII. In this way it was possible to present the evidence for each JV in a structured fashion.
CHAPTER V - THE DEPENDENT VARIABLE: JOINT VENTURE SUCCESS

The literature review on JV success reveals many ambiguities with respect to the concept of JV success and its use. Traditional measures of performance based on profits or growth are irrelevant to measure JV success in certain cases, and when they are relevant, they are plagued by measurement problems which affect their validity and comparability. This chapter attempts to clarify the concept of JV success by analyzing the empirical evidence from the Mexican JVs.

The criteria used by managers to measure JV success are presented in Tables V-1 to V-10. The following pieces of information have been collected for each JV and for each party involved (MNC parent, local parent and JVGM):

1. the criteria of success used
2. a judgment on how well these criteria have been met
3. the evidence on which this judgment is based.

From the analysis of the data, this researcher defined JV success as the ability of a JV to meet the expectations of its parents.
<table>
<thead>
<tr>
<th>CRITERIA OF SUCCESS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
<th>JVGM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-1978: Growth Earnings</td>
<td>No dividends</td>
<td>Growth rate (Min. industry average)</td>
<td>Sales and profit growth</td>
</tr>
<tr>
<td>1978- : Optimize long-term shareholder's value through consistent, real growth in earnings and ROE.</td>
<td>Dividends:</td>
<td>Profit margin on-net sales</td>
<td></td>
</tr>
<tr>
<td>Conduct business in an ethical, lawful, responsible manner.</td>
<td>Contribution to Mexico, Operating-efficiency</td>
<td>Return on shareholders' equity</td>
<td></td>
</tr>
<tr>
<td>Provide a climate in which people can grow and stay in business.</td>
<td>After 1980, achievement of corporate strategy will become an increasingly important criterion.</td>
<td>Price-earnings ratio</td>
<td></td>
</tr>
<tr>
<td>Plot between realized and intended strategy and budget.</td>
<td></td>
<td>Confidence of financial community</td>
<td></td>
</tr>
<tr>
<td>DEGREE OF SUCCESS</td>
<td>Successful</td>
<td>Successful</td>
<td>Successful</td>
</tr>
<tr>
<td>EVIDENCE OF DEGREE OF SUCCESS</td>
<td>- JV's earnings are a significant contribution to parent's consolidated earnings (3.6% in 1980)</td>
<td>- Sales growth: 74/75 75/76 76/77 77/78 78/79 79/80</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Plans successfully carried out</td>
<td>255 285 285 50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Dividend payments (million pesos) 1973 1974 1975 1980 28.1 33.7 40.5</td>
<td></td>
<td>- Average yearly return to shareholders? 39% in current pesos</td>
</tr>
<tr>
<td></td>
<td>- Parent originally put $9 million, 1980 value of their shares $35 million. (Real value estimate near $180 million)</td>
<td>- P/E 10 to 11 times</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dividend payments (million pesos) 74/75 75/76 76/77 77/78 78/79 79/80</td>
<td>Profit growth:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15.7 15 15 15 15 15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Parent originally put $9 million, 1980 value of their shares $35 million. (Real value estimate near $180 million)</td>
<td>Dividend in-shares, average 1 share for each 4 or 5 shares</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contribution to Mexico:</td>
<td>- Sales growth and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Payments to government (in million pesos) 71 72 73 74 75 76 77 78 79 80</td>
<td>Contribution to Mexico (as local parent)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>745 765 785 805 825 845 865 885 905 925</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jobs created: plus 9.3% between 1975-80</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Development of technology: 54M Pesos invested in R-D (1975-1980)</td>
<td>- Confidence financial community</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>JV very quick to meet its long-term financing requirements in a tight market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1971: 1625 Pesos in long-term debt</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1977: 400M Pesos in Debentures</td>
</tr>
<tr>
<td>MSC PARENT</td>
<td>LOCAL PARENT</td>
<td>JVGM</td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>--------------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td>U.S. headquarters</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieve JV's mission:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;to continue a profitable growth in the Mexican market and maintain its position in selected foreign markets&quot; (i.e. maintain a ratio of 75% of sales in Mexico, 25% in export markets)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NOI</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>President of Mexican holding company:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieve mission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economically viable (ROI)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Result of the two above; two partners maintain good relationship</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group Director of Mexican holding company:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieve mission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribute to needs of Mexico</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEGREE OF SUCCESS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Successful until 1976</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unsuccessful 1976-1977</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Successful after 1977</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EVIDENCE OF DEGREE OF SUCCESS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mission achieved</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NOI criteria met</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JV able to sustain its growth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average growth rate 6-7%, (same as GDP)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mission achieved</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans 1100 700 950 8700</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% total sales 3% 2% 3% 32%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan achieved</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Past conflicts have not deteriorated relationship between parents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New JVGM is facing new first serious test &quot;to maintain peace between the parents&quot;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Former JVGM, now group director: &quot;Ability of the JV to keep both investors happy&quot;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present JVGM: &quot;Maintain peace between the two partners&quot;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieve plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRITERIA OF SUCCESS</td>
<td>PARENT PARENT</td>
<td>LOCAL PARENT</td>
<td>JVGM</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------</td>
<td>--------------</td>
<td>------</td>
</tr>
<tr>
<td></td>
<td>- Originally, priority on:</td>
<td>- Profits</td>
<td>- Avoidance, resolution of conflicts between the parents</td>
</tr>
<tr>
<td></td>
<td>1) gaining experience;</td>
<td>- Growth (vent higher than MNC)</td>
<td>- Achieve plan</td>
</tr>
<tr>
<td></td>
<td>Learn how to manage JV</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2) market penetration of their brand/products</td>
<td>Future prospects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New profits and growth, with an emphasis on their brand products</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEGREE OF SUCCESS</th>
<th>Successful</th>
<th>Until 1974: Not successful After 1974: Successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNC entered and runs JVs in Brasil, Philippines, Belize</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evidence of brand products penetration: (Volume: tons)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>75 76 77 78</td>
<td>3 9 13 22 22</td>
<td></td>
</tr>
<tr>
<td>263 299 360 418 360</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution of brand products to JV:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales: 26% 90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits: 32% 40%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEGREE OF SUCCESS</th>
<th>Successful</th>
<th>Until 1974: Not successful After 1974: Successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNC entered and runs JVs in Brasil, Philippines, Belize</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evidence of brand products penetration: (Volume: tons)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>75 76 77 78</td>
<td>3 9 13 22 22</td>
<td></td>
</tr>
<tr>
<td>263 299 360 418 360</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution of brand products to JV:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales: 26% 90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits: 32% 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth and profits (same as local parent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth (Sales)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>75/76 75/76 77/78</td>
<td>23% 34% 36%</td>
<td></td>
</tr>
<tr>
<td>Contribution of brand products to JV:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales: 26% 90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits: 32% 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth (Profits)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>75/76 75/76 77/78</td>
<td>200 (32) 114</td>
<td></td>
</tr>
<tr>
<td>Growth and profits (same as local parent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth (Sales)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>75/76 75/76 77/78</td>
<td>200 (32) 114</td>
<td></td>
</tr>
<tr>
<td>Contribution of brand products to JV:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales: 26% 90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits: 32% 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth (Profits)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>75/76 75/76 77/78</td>
<td>200 (32) 114</td>
<td></td>
</tr>
<tr>
<td>Growth and profits (same as local parent)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth (Sales)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>75/76 75/76 77/78</td>
<td>200 (32) 114</td>
<td></td>
</tr>
<tr>
<td>Contribution of brand products to JV:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales: 26% 90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits: 32% 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Criteria of Success</td>
<td>MNC Parent</td>
<td>Local Parent</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------</td>
<td>--------------</td>
</tr>
<tr>
<td>CRITERIA OF</td>
<td>CEO (Montreal)</td>
<td>- Until 1979 wanted paper dividends, now they don't</td>
</tr>
<tr>
<td>SUCCESS</td>
<td>- Level of profitability that will ensure long-term economic viability of company</td>
<td>- Growth in Sales and Profits</td>
</tr>
<tr>
<td></td>
<td>- Maintain organization of able and committed individuals</td>
<td>- Contribution to Mexico</td>
</tr>
<tr>
<td></td>
<td>- Operating, technical and marketing excellence</td>
<td></td>
</tr>
<tr>
<td>VP Finance (Montreal)</td>
<td>- Meet company norms: ROI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Cash dividend</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Successful implementation of strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- After 1977: keep good relationships with the Mexicans</td>
<td></td>
</tr>
<tr>
<td>VP Latin America (W)</td>
<td>- Operating results</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- How well strategy is implemented</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- After 1979: meet the Mexican's expectations</td>
<td></td>
</tr>
<tr>
<td>Degree of Success</td>
<td>Successful</td>
<td>Successful (Until 1979 not so successful in terms of contribution to Mexico: JV was hot Mexicanized and lost opportunities. In 1979, MNC let the Mexicans own 11% of equity)</td>
</tr>
<tr>
<td></td>
<td>ROI criteria met</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dividend growth has been kept steady (10 to 20% of profits)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significant improvement observed in the quality of plans and projects</td>
<td></td>
</tr>
<tr>
<td>Evidence of Degree of Success</td>
<td>Satisfactory operating results (10 indices)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contribution to Mexico</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1) Mexicanized in 1979</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Payments to government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>52% less in 1980 (increase of 11% over 1979)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1) 78/79 79/80</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sales 47.5% 40.2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Profit 69.2% 91.66%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Satisfactory number and quality of new projects</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRITERIA OF SUCCESS</td>
<td>JNC PARENT</td>
<td>LOCAL PARENT</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------</td>
<td>--------------</td>
</tr>
<tr>
<td>COUNTRY OF ORIGIN</td>
<td>Until 1978: Profit (margins) Profits Dividends Royalties</td>
<td>Ability of JV to supply the parent with product D Ability of JV to supply the parent with data on market requirements for the resin they produce</td>
</tr>
<tr>
<td></td>
<td>After 1978 (New JNC owner) Growth (volume) Market share No dividend Vehicle to look for other opportunities in Mexico Profits</td>
<td>- No dividends - Profitability - Growth</td>
</tr>
<tr>
<td>DEGREE OF SUCCESS</td>
<td>Until 1972: Successful 1972-1978: Not successful After 1978: Successful</td>
<td>Not successful Feel they don't get enough for time and effort devoted to JV</td>
</tr>
<tr>
<td>EVIDENCE OF DEGREE OF SUCCESS</td>
<td>Until 1978: - Profit (Million pesos) 76 74 76 77 78 79 80 8.7 5.4 6.2 7.5 10 10 27</td>
<td>Obtain first hand information on market trends Returns not commensurate with time and effort JV can't introduce new product lines because not Mexicanized</td>
</tr>
<tr>
<td></td>
<td>- Market share 70-74 76 80 65% 21% 35%</td>
<td>- Growth 21% a year (after 1978) in a market growing at 10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Profits 13 (79-80)</td>
</tr>
<tr>
<td>Criteria of Success</td>
<td>MOC Parent</td>
<td>Local Parent</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------</td>
<td>--------------</td>
</tr>
<tr>
<td>- Business runs smoothly</td>
<td>- Profitability</td>
<td>- Growth</td>
</tr>
<tr>
<td>- Return on Net Assets</td>
<td>- Contribution to Mexico</td>
<td>- Maintain a state of confidence in the JV and interest from the 2 parents (successful diplomat)</td>
</tr>
<tr>
<td>- Dividends</td>
<td>- Autofinancing of JV</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Degree of Success</th>
<th>Until 1978: Not successful</th>
<th>Successful</th>
<th>Successful after 1967</th>
</tr>
</thead>
<tbody>
<tr>
<td>After 1978: Quite successful</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Evidence of Degree of Success</th>
<th>Until 1978</th>
<th>After 1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>- JV did not make money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Sales growth 5% compound rate (market 6%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Significant improvement in quality of investment proposals submitted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- JV Customer of parent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- JV eliminates imports of synthetic rubber (government priority)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Improved profitability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Autofinancing of growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Steady growth in sales and profits after 1967</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Plant capacity (tons): 1964 1980 1982 40,000 73,000 108,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Successful diplomat: 1) Climate of mutual respect</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) JV has survived tough times</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Credibility rebuilt with local partner in spite of changes among the government officials in charge of the JV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Criteria of Success</td>
<td>MNC Parent</td>
<td>Local Parent</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------</td>
<td>--------------</td>
</tr>
</tbody>
</table>
| **Until 1978**      | - Reestablish parent name and reputation in Mexico  
|                     | - Make money through the management contracts  
| **After 1978 (New president)** | - Wanted to expand in international markets  
|                     | - Profits | - Dividends  
|                     | - Assets in form of hotels and land for development | - Growth  
|                     | - | - Profitability  
|                     | - | - Successful middle-man |

| Degree of Success | Until 1978: Successful  
|                  | After 1978: Not successful  
|                  | JV terminated October 1980 | Not successful | Until 1978: Successful  
|                  | After 1978: Not successful | JV terminated October 1980 | |

| Evidence of Degree of Success | Until 1978 | After 1978 | JV did not have enough capital to buy land and hotels  
|                              | - JV owned and managed two hotels  
|                              | - Profit projections not good enough. Because of problems in Canada parent did not want to put in more money | Bank more interested in areas they knew better: mining and manufacturing | - JV was auto-sufficient through management fees  
|                              | - JVGM was able to get back to MNC their paid-in capital  
<p>|                              | - JVGM not able to get parents to put more money in JV |</p>
<table>
<thead>
<tr>
<th>Criteria of Success</th>
<th>MNC Parent</th>
<th>Local Parent</th>
<th>JVGM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>-</td>
<td>-</td>
<td>Growth</td>
</tr>
<tr>
<td>Growth</td>
<td>-</td>
<td>-</td>
<td>Profitability</td>
</tr>
<tr>
<td></td>
<td>- JV as a tool to diversify parent's portfolio in hotel business</td>
<td>- Successful middleman</td>
<td></td>
</tr>
<tr>
<td>Degree of Success</td>
<td>Successful</td>
<td>Successful</td>
<td>Successful</td>
</tr>
<tr>
<td>Evidence of Degree of Success</td>
<td>Profits (U.S. dollars) 78 (400,000) B/S Budgeted 80 190,000 1M</td>
<td>Growth (see MNC parent) Successful penetration of the medium quality hotel market</td>
<td>3 years to recoupate more than paid-in capital Growth and profits (see MNC parent)</td>
</tr>
<tr>
<td></td>
<td>Growth (number of hotels managed) 78 73 80 81 10</td>
<td></td>
<td>Successful resolution of a disagreement over the legal and commercial names of JV and hotels (one-year negotiations)</td>
</tr>
<tr>
<td>CRITERIA OF SUCCESS</td>
<td>MNC PARENT</td>
<td>LOCAL PARENT</td>
<td>JVGM</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------</td>
<td>--------------</td>
<td>------</td>
</tr>
<tr>
<td>Market share</td>
<td></td>
<td>Meet budgets</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td>Development &amp; growth potential</td>
<td></td>
</tr>
<tr>
<td>JV as a tool to search for opportunities in Mexico and as a test before entering other Latin American markets</td>
<td></td>
<td>&quot;No noise&quot;</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEGREE OF SUCCESS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
<th>JVGM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EVIDENCE OF DEGREE OF SUCCESS</th>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
<th>JVGM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share objectives achieved</td>
<td></td>
<td>Budgets not met</td>
<td></td>
</tr>
<tr>
<td>Opportunities identified in Mexico for other MNC products</td>
<td></td>
<td>Good market penetration</td>
<td></td>
</tr>
<tr>
<td>Asked for JVGM replacement</td>
<td></td>
<td>Budgets not met</td>
<td></td>
</tr>
<tr>
<td>CRITERIA OF SUCCESS</td>
<td>MNC PARENT</td>
<td>LOCAL PARENT</td>
<td>JVGM</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------</td>
<td>--------------</td>
<td>------</td>
</tr>
</tbody>
</table>
| Until 1978          | - Profitability
|                     | - Market expansion
|                     | - Dividends    |
| After 1978          | - Market leadership
|                     | - Build long-term profit base (stable ROI)
|                     | - Achieve strategic and operating plans
|                     | - Identification of future growth opportunities
|                     | - Achieve JVGM's personal objectives |
| DEGREE OF SUCCESS   | Until 1978: Unsuccessful
|                     | After 1978: Successful |
|                     | Until 1978: Successful (Local partner in process of being bought out) |
|                     | Until 1978: Unsuccessful
|                     | After 1978: Successful |
| EVIDENCE OF DEGREE OF SUCCESS | 1971-78
|                     | - Losses or marginally profitable
|                     | - Market leader |
| After 1978          | - Last 3 plans achieved
|                     | - Market leader
|                     | - Successful hiring and training programs
|                     | - Good market standing and long range plans |
|                     | - High contribution to parent through transfer prices
|                     | - Market leader (sales and price) |
|                     | After 1978
|                     | - Market position strengthened
|                     | - Profit objectives met |
For the purposes of the present dissertation the above definition is operationalized by classifying JVs in one of the following categories (for a summary refer to Table V-11):

- successful for both parents
- unsuccessful for both parents
- successful for the MNC parent, unsuccessful for the local parent
- successful for the local parent, unsuccessful for the MNC parent.

Table V-11: Joint venture success matrix: JVs' position in 1980

<table>
<thead>
<tr>
<th>MNC parent</th>
<th>Unsuccessful</th>
<th>Successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsuccessful</td>
<td>CT</td>
<td></td>
</tr>
<tr>
<td>Successful</td>
<td>RUF, SON</td>
<td>TOP, IRSA, PAC, HAL, AP, QA, NIL</td>
</tr>
</tbody>
</table>

As shown in the preceding chapter, the richness of the data enabled this researcher to observe changes in JV position within the matrix over time.

This chapter discusses the findings on how managers measure JV success, in particular those which lead to the proposed definition of JV success. The following points are covered in this chapter:
- characteristics of the managers' criteria of JV success
- criteria of JV success and managers' perspective
- similarities of the criteria of success over time
- instability of the criteria of success over time
- joint determination of the criteria of success
- parents' interests versus JV's interests.


In trying to develop an understanding of how managers in parent companies form a judgment on JV success, this researcher observed that:

- the criteria of success are not always explicit
- JV success is a multidimensional concept involving both qualitative and quantitative measures.
- managers measure JV success by considering a combination of criteria over a period of time.

The purpose of this section is to elaborate upon each of these observations.

The first observation is that one parent's criteria of success are not always explicit to managers in the parent company, to managers in the partner's organization or to the JVCM. Sometimes they are not explicit
at the parent level itself. As a manager in the Canadian parent of HAL recognized:

At this stage we are not too sure about what our Mexican JV is supposed to do for us. Our objective is to make sure that the business runs smoothly.

Managers in three other parent companies also indicated that at one point or another they were not in a position to decide how successful their JV was, other than to observe that it was growing.

In certain cases one parent’s expectations were not clear to the other parent. Managers in nine parent companies indicated that there had been a period when they did not know or understand their partner’s criteria of success.

Finally, in seven out of the ten cases, the JVGM indicated that he had had in the past - or still had now - difficulties in understanding what the criteria of his two parents were. In most cases the JVGM was not handed by his two parents a clear set of criteria. Typically, he had to learn over time, through a trial and error process, what he had to do well to make each parent happy. The uncertainty faced by JVGMs is described in the following statement by the president for the Mexican operations of an American MNC:

The general manager of a JV is under more pressure than the general manager of a wholly-owned subsidiary to run his company well because he reports to two bosses instead of one and because the expectations as to what
is good or bad are less clear in a JV than in a wholly-owned subsidiary.

The ambiguity which JVGMs face with respect to their parents' success criteria is explained on the following grounds:

- the parents do not have specific criteria in the first place
- the parents do not make their criteria explicit
- the parents use several criteria simultaneously
- the criteria can change over time.

As shown in Tables V-1 to V-10, managers in parent companies select the criteria of success they use from a wide range of indicators.

Among the quantitative criteria are:

- growth (sales being the most commonly used indicator)
- profit level and profitability (ROI, ROE, ROA)
- ability to operate within budgets
- market share
- dividends.

Among the qualitative criteria are:

- learning experience provided by the JV before pursuing future growth:
  (1) through JVs in other countries
  (2) in other Latin American markets
  (3) in other businesses in Mexico.
- contribution to Mexico (compliance with the priorities of the Mexican plan):
  
  (1) creation of employment  
  (2) exports  
  (3) import substitution.  
- fit between the intended strategy and the realized strategy  
- creation of a long term profit base  
- establishment of the parent's name or reputation in Mexico:  
  (1) reestablish the reputation of the parent in Mexico after an unsuccessful earlier attempt  
  (2) expand the brand name in Mexico.  
- confidence of the financial community in the JV.  

The number of parents that use one or the other or both types (quantitative and qualitative) of success criteria, as presented in Table V-12.
Table V-12: Types of criteria of success used by MNC and local parents.

<table>
<thead>
<tr>
<th></th>
<th>Quantitative criteria alone</th>
<th>Qualitative criteria alone</th>
<th>Both quantitative and qualitative criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNC parents</td>
<td>3</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Local parents</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

Only 8 (40%) of the parent companies relied on quantitative criteria alone to evaluate the degree of success of their JV. For the other 12 parents it was generally difficult to decide which of the qualitative or quantitative criteria came first. In two cases (of the 12) the qualitative criteria clearly came first (MNC parent in NIL and local parent in HAL), while the quantitative criteria came first in five cases (MNC parent in AP and SON, local parent in AP, SON and IIRSA).

The data show that traditional measures of performance such as profitability or growth are often used to measure JV success. However, they are seldom used alone: they are not the single measure of JV success.

Further, how should one measure JV success when one parent is interested in profitability and the other in growth? This was the case in six JVs.
Growth and profitability are not sufficient to measure JV success because in certain cases they are not used at all. For instance in the early years of the JV NIL, the MNC parent was not concerned with economic criteria of performance. It was interested in learning how to run JVs and in the quality of its brand products. Consequently, a danger in using profitability or growth as a measure of JV success is that such criteria may not reflect what managers are trying to maximize.

A number of important conclusions can be drawn from the data to understand what JV success means to managers in parent companies. First, there is no single criterion which is applicable to all cases. Rather, managers tend to measure success along criteria which reflect the self-interest of their company in the JV - e.g., "The dividends we receive from the JV tell us the extent of its success because they are the only thing we get and the major reason why we got into the venture in the first place" - and probably their own personal biases. Each parent, then, develops its own criteria of success.

Second, managers form a judgment on the JV's success by taking into consideration a combination of indicators rather than just one criterion. For example the Mexican parent in the JV IRSA measures success by a joint consideration of four criteria:

- contribution to Mexico
- dividends
- growth
- building a long term profit base through forward integration.

As the data in Tables V-1 to V-10 shows, all parent companies use more than one indicator. Consequently JV success is a multidimensional concept, and managers tend to subjectively aggregate the various dimensions in an overall index. A weight is implicitly attached to each dimension, reflecting the importance of a particular indicator in a manager's personal judgment. For instance, in the example of the Mexican parent in the IRSA JV outlined above, dividends and growth had carried the highest weights so far, but now the relative importance of the ability of the JV to build a long term profit base was increasing significantly.

Third, when asked to provide evidence for their judgment on the degree of success of the JV, managers provide answers which suggest that they base their judgment on the results achieved over a long period of time. Managers evaluate success in terms of trends rather than in terms of a specific point in time. The following examples illustrate the idea that managers evaluate success over specific periods of time rather than at one point in time:

I would say that our JV has been quite successful because even if it did not make money in the past, it has been growing steadily and has been profitable in the last 3 years. (HAL: Canadian parent)
The JV has done poorly in its first seven years. In spite of a large market share it did not make money. Now it has become profitable. (RUF; US parent)

Overall, I am very satisfied with the JV. The new plant is the fruit of growth and the profits are a sign of competent management. Also, the JV's performance against objectives, budgets and plans has been better than expected. (NIU; local parent)

2. Criteria of JV Success and Managers' Perspective.

This section examines differences in the criteria of JV success used by different organizational levels. First, it describes the difference in focus between managers in parent companies and JVGMs. Then it describes differences in criteria between hierarchical levels within a parent company.

The data in Tables V-1 to V-10 suggest that JV success does not mean the same thing at the parent level on the one hand and at the JV level on the other hand. Managers in the parent companies tend to decide on the JV's success based on how well the JV meets their own expectations, while the JVGMs' judgement is based on the avoidance of bad relationships between the parties involved. In other words, the managers in the parent companies tend to use indicators centered around the idea of achieving specific results, while the JVGMs tend to use indicators centered around the idea of preventing bad relationships from developing. The former view is positive in essence, while the latter is negative.

While managers in the parent companies tend to evaluate a JV's success
on results achieved along specific dimensions which reflect the expectations of their own company, JVGMs tend to use a more complex set of criteria. JVGMs consider their JV successful when they can manage it in a way that does not create tensions or conflicts between the three parties involved first, and that meets each parent's expectations second. The joint consideration of the two dimensions mentioned above is illustrated in the following statements:

If the joint venture is able to accomplish a desired result without too much "noise", it is a good sign for future prosperous relationships. (This is the way a former JVGM, now V.P., in a Mexican group involved in 15 JVs, defines JV success.)

For the JV to be successful I have to grow, to achieve the objectives set by the VP for Latin America; to maintain the leadership position we have in Mexico and to maintain a trust relationship between the Canadians and the Mexicans. (JVGM of AP)

The two quotes above suggest that JVGMs do not evaluate the extent of the JV's success on economic criteria alone. This observation is reinforced by the data presented in Table V-13 which shows that only 3 JVGMs evaluate their operation on economic criteria alone, while 7 JVGMs consider that a successful JV is primarily one which does not create problems for, or between, its parents. In their view, a necessary condition for that is to meet each parent's criteria separately. However, this is not always sufficient.
Table V-13: Criteria of JV success used by the JV general managers.

<table>
<thead>
<tr>
<th>Avoid conflicts and Economic criteria alone</th>
</tr>
</thead>
<tbody>
<tr>
<td>JVs</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

The importance of avoiding conflicts between the three parties (or their successful resolution) is better captured in the following quotes:

A good indication of the success of the JV is that one parent has been able to run the JV without interference from the other parent. (JVGM NIL)

What I have to do to be successful is to maintain peace between the two parties. I cannot give preference to one partner, otherwise the other one rebels. (JVGM PAC)

So, for JVGMs, JV success means something more than just meeting budgets or ROI standards. It also means being able to avoid conflicts or tensions between the parties involved. Two JVs have been rated as successful by their JVGMs in spite of poor economic performance, which in each case made them unsuccessful in the eyes of at least one parent (NIL and HAL). In those two cases, the JV was rated as successful because no conflicts or tensions arose between the two partners in spite of the poor economic results. Conversely the JV CT was...
unsuccessful because even though it was profitable, its parents could not develop a working relationship and the JV collapsed.

Differences in the criteria of success also exist between different hierarchical levels in the same parent. The JVGM needs to understand the expectations of each particular level. A fundamental issue is: how well does a manager, at a particular level in the hierarchy, understand the results on which he bases his judgment? The issue arises because a judgment on success cannot always be made by looking at a list of numbers on a piece of paper. The data often have to be interpreted in the light of a good understanding of the JV's unique situation. Typically, managers operating at a level closer to the JV are in a position to develop a better understanding of what is going on in the JV than higher levels in the hierarchy.

This is a reason why in the JV TOP, the representative of the Canadian parent in Mexico is given a high degree of autonomy to deal with the JV and to assess its performance. In AP, the JVGM reports to the VP Latin America in Rio and then to the VP Finance in Montreal. In order to help the VP Finance understand the information and data he receives, he has been assigned an assistant with experience in Latin America, a former general manager of the Mexican JV. While in the case of JV TOP, in spite of several levels of authority, there is only one level to evaluate the JV performance, in the case of AP the two levels mentioned are involved. In spite of a difference in the scope of the criteria of
the two levels (VP Finance interested in ROI, dividends and strategy implementation, VP Latin America interested in operating results and strategy implementation), there is no inconsistency in meeting the criteria of the two levels simultaneously. However, when the criteria used at different levels are incompatible, problems arise. In the case of the conflict faced in PAC for instance, the JVGM has to deal with a situation where the expectations of the US headquarters (ROI) are different from those of the president for the MNC's Mexican operations (growth). A search for a solution to this conflict was in progress through bargaining.

3. Similarities and Differences in the Criteria of Success.
A distinctive characteristic of a JV is that it can draw from the resources of two parents. The direct consequence of this characteristic is that the JVGM has to account for the use of the resources made available to him by two bosses. This is the source of one of the major difficulties in the job of a JVGM: to be able to accommodate simultaneously two parents with different interests (for a summary of the major differences in the criteria of success, refer to Table V-14).
Table V-14: Differences in the parents' criteria of success.

- in the dimensions used: growth/profits
  dividends
  exports

- in the time orientation: long-term vs.
  short-term

- in the level of achievement: aggressiveness
  of the criteria

- in the degree of specificity.

In three cases the task of the JVGM was made easier because each parent was aware and understood its partner's expectations. However, in seven of the ten JVs studied, the JVGM had to justify the JV's results in relation to two different sets of criteria of success. In certain cases the JVGM had to deal with incompatible criteria, while in other cases he had to deal with different levels of expectations regarding one particular dimension.

The objectives of the two partners proved significantly at odds in only one JV. In the JV CT, the Canadian parent was primarily interested in the profits it made through the hotel management contracts generated by the JV. On the other hand the Mexican parent was interested in dividends and in the development of an asset base in the form of hotels and land for development. The Canadian parent was not ready to provide the JV with the funds required to meet the Mexican parent's expectations, and after three years of arguments the JV was discontinued.
The most frequent disagreements arose over specific dimensions of success, such as growth, dividends, exports, profits. Parents disagreed over dividends at one point or another in five out of the ten JVs in the sample. Typically one parent would like to receive a dividend while the other would prefer to see the money reinvested in the JV. In two JVs the Mexican parent was the one who wanted the dividends because they were the only tangible benefit it drew from the JV. In three JVs it was the MNC parent who wanted the dividend, but in these three cases the dividend came on top of other benefits such as the revenues from a transfer of technology or a licensing contract.

Disagreements also arose over the dividend payout ratio or the form in which the dividend was to be paid:

- Between 1972 and 1978 the Dutch had a colonial attitude, they wanted to pay 100% of profits in dividends. The Mexican parent on the other hand wanted the profits reinvested in the JV. So, before each board meeting, both parents spent a significant amount of time arguing about how much should be paid out. On average 50% of the profits were distributed in dividends during that period. (SON JVGM)

- The Canadians were interested in cash dividends which were sent to Montreal and where they got 50% after tax. The Mexicans on the other hand preferred to have paper dividends taxed at a lower rate than cash dividends. Arguments over this issue were solved at a breakfast meeting just before the board meeting. The purpose was to avoid bad feelings. Now that the company went public the Mexicans have agreed not to pay any paper dividend because of the negative effect it would have on the price of the shares. (AP JVGM)

In order to avoid further confrontations over the amount to be paid in
cash dividends, the board of the latter JV (AP) agreed on a policy to maintain a steady dividend growth. In PAC if no agreement has been reached over dividend payments, the policy is to pay in a given year 100\% of the profits of the previous year. RUF, where the MNC parent has removed its original Mexican partner and is in the process of looking for another one, provides us with still another example of how to solve the conflict over dividends:

Conflicts often arise in the area of dividends. Our company would like to get a regular stream of dividends from RUF. The problem is: how do you plan for that? The risks have to be identified and put on paper. For instance, in the by-laws of the future RUF JV, we intend to include a clause according to which, in case the two partners can't agree on the dividend payments for a specific year, 40\% will be paid out.

Another area where conflicts arise is exports. The Mexican parents tend to include exports as a criterion of success because of the political and economic benefits accruing to firms involved in exports (it is one of the major priorities of the Mexican plan). On the other hand the MNC parents do not want to have exports from the JV competing with products coming from plants that are wholly-owned, where they get 100\% of the profits rather than 49\%. In the JV PAC for instance, at a time when there was excess capacity in the Mexican plant, both parents agreed that the JV should export. However, in 1980 the JV faced a situation where the MNC parent wanted to stop exporting in order to serve the same markets from another operation which had excess capacity while the Mexican parent wanted to maintain the exports. This issue
had not been solved at the time of the data collection. In other cases
where the issue had been debated, negotiations turned to the advantage
of the Mexicans in IRSA, while in TOP the Canadian parent was
successful in arriving at a compromise: it would have control over the
marketing of the JVs products outside Mexico.

Besides similarities and differences in the dimensions used by the
different parties to evaluate the degree of JV success, there are also
similarities and differences in their time orientation and
aggressiveness, i.e., level of expectations. With respect to time
orientation, Table V-15, suggests that JVCs tend to be short term
oriented and that there is no generalization for the parents: there
are both short term and long term oriented MNC parents as well as short
term and long term oriented local parents. When meeting the short term
objectives of one parent helps to achieve the long term objectives of
the other parent, or when the JVC is able to convince the two parents
that this is the case, there is no problem. However, when one parent
realizes that meeting its partner's short term objectives jeopardizes
the achievement of its own long term objectives, conflicts arise: The
conflict described earlier between the MNC parent and the Mexican
parent in the JV PAC is a good case in point: the Mexicans do not want
to postpone a project that will enable the JV to accomplish its mission
in the long run; (to maintain a ratio of 75% of domestic sales versus
25% of exports) simply to meet the short term ROI criteria of the MNC
parent).
<table>
<thead>
<tr>
<th>MNC PARENT</th>
<th>LOCAL PARENT</th>
<th>ITEM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IRSA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LONG-TERM</strong>&lt;br&gt;&quot;Optimize long-term shareholder's value through consistent real growth in earnings&quot;</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Yearly growth rate&lt;br&gt;- Operating efficiency</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Sales and profit growth&lt;br&gt;- Profit margin on net sales</td>
</tr>
<tr>
<td><strong>PAC</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Achieve mission&lt;br&gt;- ROI&lt;br&gt;- Dividends</td>
<td><strong>LONG-TERM</strong>&lt;br&gt;- Protection against erosion of money&lt;br&gt;- Fiscal benefits&lt;br&gt;- Mission (Growth and Exports)</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Maintain peace between partners&lt;br&gt;- Achieve plan (1 year)</td>
</tr>
<tr>
<td><strong>NEL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Profits, growth, and quality of their own brand</td>
<td><strong>LONG-TERM</strong>&lt;br&gt;- Profits&lt;br&gt;- Growth&lt;br&gt;- Future prospects</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Operating results</td>
</tr>
<tr>
<td><strong>AP</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- ROI&lt;br&gt;- Dividends&lt;br&gt;- Operating results</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Short-term growth in sales and profits</td>
<td><strong>LONG-TERM</strong>&lt;br&gt;- Maintain leadership in Mexico&lt;br&gt;- Maintain trust between partners</td>
</tr>
<tr>
<td><strong>SON</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LONG-TERM</strong>&lt;br&gt;- Volume growth&lt;br&gt;- Market share&lt;br&gt;- Vehicle to look for opportunities in Mexico</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Profitability&lt;br&gt;- Supplies from JV&lt;br&gt;- Information on market</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Nest budgets&lt;br&gt;- Profitability</td>
</tr>
<tr>
<td><strong>HAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Return on Net Assets&lt;br&gt;- Dividends&lt;br&gt;- Business runs smoothly</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Profitability&lt;br&gt;- Contribution to Mexico&lt;br&gt;- Autofinancing</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Successful diplomat&lt;br&gt;<strong>LONG-TERM</strong>&lt;br&gt;- Growth</td>
</tr>
<tr>
<td><strong>CT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LONG-TERM (Before 1978)</strong>&lt;br&gt;- Reestablish parent reputation in Mexico</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Dividends</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Growth&lt;br&gt;- Profitability</td>
</tr>
<tr>
<td><strong>SHORT-TERM (After 1978)</strong>&lt;br&gt;- Profits</td>
<td><strong>LONG-TERM</strong>&lt;br&gt;- Build asset base in hotels and land for development</td>
<td><strong>SHORT-TERM</strong>&lt;br&gt;- Successful middleman</td>
</tr>
<tr>
<td></td>
<td>MON PARENT</td>
<td>LOCAL PARENT</td>
</tr>
<tr>
<td>-------</td>
<td>------------</td>
<td>--------------</td>
</tr>
</tbody>
</table>
| QA    | SHORT-TERM - Profitability  
        - Growth  
        | LONG-TERM - Growth  
        - JV as tool to diversify parent’s portfolio in hotel business  
        | SHORT-TERM - Growth  
        - Profitability  
        - Successful middleman |
| TOP   | LONG-TERM - Market share  
        - Growth  
        - Search for opportunities in Mexico and Latin America  
        | SHORT-TERM - Meet budgets  
        | LONG-TERM - Develop a growth potential  
        | SHORT-TERM - Meet budgets  
        - "No noise" |
| RUF   | LONG-TERM - Build long-term profit base  
        - Achieve strategic plan  
        - Identification of future growth opportunities  
        | SHORT-TERM - Contribution to parent through transfer prices  
        | SHORT-TERM - Monthly results  
        - Profits ROI |
The overwhelming tendency of JVGMs to focus on a short-term horizon may be accounted for by the following facts:

- In all the JVs at least one of the parents had a short-term orientation itself.
- All JVGMs had a bonus tied to their JV's yearly results.
- JVGMs frequently have to report their results to their boards and/or executive committees. As Table V-16 below indicates, the boards of 75% of the JVs for which data are available meet at least four times a year.

Table V-16: Number of board meetings per year.

<table>
<thead>
<tr>
<th>JV</th>
<th>Board meetings per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>SON</td>
<td>3</td>
</tr>
<tr>
<td>AP</td>
<td>12</td>
</tr>
<tr>
<td>TOP</td>
<td>N/A</td>
</tr>
<tr>
<td>HAL</td>
<td>6</td>
</tr>
<tr>
<td>CT</td>
<td>N/A</td>
</tr>
<tr>
<td>QA</td>
<td>4</td>
</tr>
<tr>
<td>IRSA</td>
<td>4</td>
</tr>
<tr>
<td>PAC</td>
<td>4</td>
</tr>
<tr>
<td>NIL</td>
<td>2</td>
</tr>
<tr>
<td>RUF</td>
<td>4</td>
</tr>
</tbody>
</table>

How managers in some parent companies attempt to have JVGMs think and act in ways consistent with the achievement of their long term criteria of success is examined in Chapter VII of this dissertation.

In terms of aggressiveness, the data suggest that managers in the local parent companies have higher expectations regarding sales growth than managers in the foreign parents. Managers involved in seven of the ten
JVs explicitly mentioned that the local parent wanted more growth than the foreign parent. Typically, managers in MNC parent companies tend to put more emphasis on profitability, while growth carries a lesser weight in their criteria of success. Differences in priorities between the two parents, however, are not sufficient to explain the difference in attitude towards growth. Managers involved in three JVs pointed out that the foreign parents had difficulties in understanding that the Mexican JV could grow at rates of 30% or more when they were experiencing stagnating sales on their domestic and other foreign markets.

Finally, the criteria of success applied to a particular JV differ according to their specificity. Some parents tend to use broad criteria of success while others use very precisely defined criteria. In the case of IRSA, for example, the US parent has a set of broad expectations, "optimize long term shareholders value through consistent real growth in earnings and ROE", while the Mexican parent evaluates growth by comparing it to industry average standards.

4. Instability of the Success Criteria over Time.

When asked how they go about deciding how satisfied they are with a JV, managers in the parent companies answer in terms of the present criteria used. However, by taking a historical perspective on the events that led to the present situation, in 6 out of the 7 JVs that had been in operation for more than four years, the present criteria
were not appropriate to judge the performance of the JV in the past. Basically, as circumstances change, parent companies adopt the criteria of success. This adjustment does not necessarily involve the replacement of an old set of criteria by a new set but can simply involve a change in the importance attached to specific criteria—while keeping the same criteria.

This section examines circumstances which have led parent companies to change the criteria they use to evaluate a JV's performance.

One such circumstance is when the JV had grown to a point where its impact on the consolidated results of the parent was no longer marginal. In the case of the JV's NIL, for instance, the MNC parent had two objectives at the time it entered the arrangement. It wanted to learn how to manage JVs in developing countries before implementing a strategy of growth on foreign markets through JVs, and to establish its brand on the Mexican market. During the first five years of operation the Mexican JV incurred losses. In spite of the JV's poor financial performance the MNC parent was quite satisfied because its main criteria of success were met: the sales of its brand products were growing, and it was learning about JV management as evidenced by the fact that they entered seven JVs between 1970 and 1977. After 1977, however, NIL had become the largest JV the MNC parent was involved in, both in terms of sales and profits, and consequently the financial and operating results became more important. This change in priorities was
reflected in a change in the criteria of success. Now profits and growth are used as the most important indicators of success, with profits carrying a greater weight than growth.

In the case of IRSA, the MNC parent was primarily concerned with growth and earnings during the first 7 years of operation. Then, as the contribution of IRSA's earnings to MNC parent's consolidated results became significant, MNC parent became more interested in profitability and in the successful implementation of the JV's agreed-upon corporate strategy. The MNC parent management became concerned with the ability of the JV to provide a consistent real growth in earnings and ROE in the long run. The risks involved in the IRSA investment were growing as fast as the JV. Consequently the MNC parent decided that "any kind of growth" was not an appropriate indicator of the JV's success anymore. A better indicator of the JV's success was the JV's ability to build a long term profit base which was measured by how well the agreed-upon strategy was implemented. As a result the success criteria became: the successful implementation of the agreed-upon strategy and profitability, instead of any kind of growth and earnings.

A second circumstance in which a parent company has changed the way it evaluates a JV's performance was when a change in the parent's domestic market conditions made the success criteria used non-viable. For example, in the case of PAC the MNC parent evaluates the JV's success on the ability of the JV to achieve its mission, i.e. "to continue
profitable growth in the Mexican market and to maintain its position in selected foreign markets. Implicit in this statement are three dimensions of success: growth, profitability (ROI) and exports. At the time of the interviews, the MNC parent had made ROI the sole criterion of success and refused to approve an expansion program which was expected to be financed through internally generated funds and short term loans. The MNC's parent concern was that the project would endanger the profit margins, net earnings and ROI figures in the short run. The only way the three objectives could be met was through equity financing, but with the recession in Europe and in the US the MNC parent was not prepared to put more equity capital in the JV. Because of the increasing uncertainties the MNC parent was facing in its other markets, it decided that to be successful the JV did not need to grow and/or export, as long as the company ROI standards were met.

Another illustration of the same point was given by the president of the MNC parent's operations in Mexico:

The MNC parent's expectations towards the JV can change fast depending on what happens in the U.S. For instance, recently, the company issued shares in the U.S., so now the more cash dividends they will get from IRSA the more satisfied they will be with its performance, whereas until now the MNC parent would have preferred to see the profits totally reinvested in the JV.

A third circumstance which has led to a modification in the criteria of success used by a parent company is when a change has taken place in
the ownership pattern of the JV. This is the case of the AP where the Canadian partner agreed to satisfy the requirements of the law and saw its ownership fall from 51 to 49%. Until 1979 the success criteria were essentially ROI and successful implementation of the JV's strategy. After 1979, a new dimension had to be considered to measure the degree of success of the JV. Because the Mexicans had the majority on the board they were in a position to get rid of the XM who came from the MNC parent's organization, if they felt that he did not manage the JV in a way that met their own expectations. Until then, meeting the Mexicans' demands had not been a priority for the MNC parent because with the majority of votes on the board, the Canadians could always have the final word when disagreements arose. Consequently, a new dimension was added to the previous ones to measure the success of the JV: the degree of satisfaction of the Mexican partners with the way the JV was managed. This involved, for instance, raising the MNC's expectations of the JV's growth to the higher Mexican level. In the chapter on control we shall examine what specific moves were taken by the Canadian parent following the addition of the new dimension of success.

Finally a fourth circumstance which can lead to a modification in the success criteria is following a change at the top management level of a parent. This was the case in three of the JVs studied. In CT, after a year and a half of operation, a new management team came from the Canadian headquarters of the MNC parent. The new management had much
higher expectations in terms of profits, and while the JV was performing satisfactorily for the previous management, its results were no longer adequate in the eyes of the new management. The failure of future projections to meet the parent's standards eventually led to the termination of the JV.

In SON, the criteria of the original MNC parent were profits and the amount of dividends they could repatriate. When the original MNC parent was bought out by another Dutch company, new criteria were established which reflected the expectations of the new management. The new criteria were centered around growth and market share while profitability became secondary to the above. Dividends were no longer used as an indicator of success.

5. Joint Determination of Parents' Expectations and JVs' Objectives.

As suggested earlier, in most cases it is part of the JVGM's role to learn what he has to do well to keep his parents happy. Even though managers in parent companies tend to recognize the ambiguity pervading the job of the JVGM, few of them attempt to reduce the uncertainty resulting from a lack of clear expectations. In four JVs the JVGM had to infer the parents' criteria of success through a trial-and-error process. In three JVs, only one parent had provided a set of criteria. The JVGM had to identify those of the other parent and reconcile the two sets. In three JVs only did the JVGM have a clear set of objectives that had been agreed-upon by the two partners.
The determination of a unique set of objectives acceptable to both partners took place in two ways. In the first approach the two parents initiated the process by sitting together and presenting to each other their respective expectations as to what the JV needs to achieve (how much growth, level of ROI, dividends, etc.). Once each had a clear understanding of what the other was interested in, they looked for a formulation of the JV's objectives which satisfied their respective expectations. It was these agreed upon objectives that the JVGM used as a yardstick to measure his degree of success.

The process described above had been used in PAC and TOP. In both cases the process had been carried out before the JV even started. It is important to observe that managers of the Mexican parent company in the JV TOP and of the American parent company in the JV PAC had come to the conclusion that going through the process of clarification of expectations and formulation of agreed upon objectives was a good way to avoid and/or solve conflicts that may emerge as the JV grows. Managers in the two companies had come to the same observation independently, but both had drawn their conclusion on an extensive experience with JVs: the Mexican parent in the JV TOP was involved in 15 JVs while the American parent in the JV PAO was involved in 9 JVs in Mexico alone. The philosophy of the Mexican parent in the JV TOP was explained in the following terms:

In customary negotiations, each party hopes to come out with an agreement which will give him the lion's share
of the benefits. We do not operate that way. We believe that a JV is a "two-way" street proposal, a "win-win" relationship. Accordingly, with this philosophy, the amount of time required to conclude negotiations has been sharply reduced. For practical purposes it is advisable to state from the beginning the possible benefits to both partners.

One of top management's most important tasks is to set objectives. We have found that because of language, interference in the communication channels, different perceptions, or simple lack of common knowledge, failure to set the objectives can become a serious handicap in the running of the business. It is important to state the objectives, avoiding contradictions, or the result will be confusion or frustration.

Implicit in the quote above is another important issue in understanding how parent companies go about deciding how successful a JV is: the maximization of one parent's interests versus the need to satisfy two sets of expectations which are not necessarily congruent. This issue is specifically discussed in section 3 of the present chapter.

A second approach used to determine a unique set of objectives for the JV was initiated at the JV level rather than at the parent level. This second process was followed by the management of IRSA. The need to develop an understanding of the parent's expectations and a clear set of criteria to measure the success of the JV arose after managers from the two parents had shown increasing concerns that they did not understand what the JV was doing and where it was going. IRSA had been growing very fast and its managers had had difficulties in developing a satisfactory organizational structure. IRSA's top managers came to the
conclusion that what was needed was a concept of corporate strategy. When they started working at this task, it quickly became apparent that other than profits, they did not know what the expectations of the parents were. Consequently, managers from IRSA carried out a search to understand what the claims of the parents were. They screened internal documents of both companies, annual reports, and speeches by top executives of the two parents, rather than ask each parent to answer the question. They came up with a set of hypotheses that they presented at the following board meeting. During that meeting managers from each parent commented on the list presented to them. They deleted some criteria, added new ones, reformulated or clarified others, and the result of the discussion was that each party knew and understood what the expectations of the other two were. Some objectives were similar and others were divergent, so the next step taken by managers of the JV was to reconcile differences in order to come up with a list of objectives for the JV which reflected the interests of both partners:

With respect to profits, agreement had to be reached as to what is more important: size of profits and growth or ROI and net margins. The Mexican parent favoured the first and was concerned with the development of a consistent, growing profit base. The MNC parent was concerned with the second and put priority on margins. The only way to match these two views was to have the partners agree on the kind of investment growth they saw for the JV.

A manager from the JV indicated that after this experience, the parents were very satisfied because they felt that they determined the
corporate objectives of the JV.

In all cases, the process of arriving at a set of common objectives followed two steps: first, the clarification of each parent's expectations, second the formulation of JV's objectives which reflected the interests of the two parents. All parties involved in the three JVs discussed above agreed on the benefits derived from the process: it helped build trust, it helped solve minor differences which could arise over specific issues by using the agreed-upon objectives as a reference, and it helped avoid surprises as the JV grew.

6. Parents' Interests versus JV's Interests.

The previous section has shown that two partners in a JV can use very different criteria to evaluate a JV's performance. As long as each partner is satisfied that the JV promotes its company's interests, the likelihood of conflicts between the two parents is greatly reduced. In other words there is nothing wrong with a JV having to meet two different sets of expectations, as long as both parents see the JV as a win-win proposition. However, conflicts are likely to arise when the JV, while promoting the interests of one parent, is perceived to do something which is contrary to the interests of the other parent. In order to avoid situations in which one parent is seen as a winner and the other as a loser, managers need to compromise. They need to understand and take into consideration their partner's interests:
foreign partner should never lose sight of the interests of the JV and of the Mexican parent. Even if in the short term this might go against its own interests. For instance if both the JV and the MNC parent are serving export markets and the parent has a temporary excess in production, it should not decrease the exports from Mexico to replace them by exports from the parent plant. (Group director US parent in PAC)

Some managers go even further and suggest that the JV’s interests should be considered first:

The answer to the question who is the optimizer? has to be the JV. If the JV tries to satisfy one parent’s interests more than the other parent’s, then the latter is going to be the loser. The only solution is to put the JV’s interests first. At the beginning, our US partner wanted to put its interests first, but it could not work unless our company was associated with them in all of their other operations. For example if our US partner has excess capacity in Sydney and decides to limit exports from Mexico to replace them by exports from Sydney, there is a conflict of interest with us. (VP Chemicals and Petrochemicals division, Mexican parent IRSA)

Based on our experience, the interests of the parents have to be put second. If they are not consistent with those of the JV, then the parent should not enter a JV. Problems arise when a parent’s expectations change. If the JV is first, the parents have to avoid that their expectations change. In a JV the rules of the game are different from those of a wholly-owned subsidiary. You have to deal with someone else and it means that you have to ‘e read‘ to compromise. A MNC has to accept that things in the JV be done, not necessarily in its best interest. (VP international US parent RUF).

The view expressed above that a JV’s interests should be put first and its parents’ interests second was generally shared by JVsGMs. However, it was not supported by five of the seven managers (from parent
companies) who explicitly differentiated between the two levels of interests. These five managers strongly believed that since the parents are the investors, putting the money in the venture, their criteria of success have to be met first.

The important issue here is not whose interests should come first, but rather the implication that a JV may have interests different from those of its parents. This implication may appear odd coming from managers in parent companies who tend to evaluate a JV's performance on the basis of how well it meets their company's expectations and interests. How can a JV have interests of its own when its raison d'être is to satisfy the interests of its parents? What do managers mean by JV's interests?

When managers refer to a JV's interests, they implicitly conceptualize a criterion of what is good or bad for the JV. This criterion may be operationalized in a number of ways, depending on the manager, the JV, the circumstances in which it is said, etc. For instance, one manager may decide that anything that improves the competitive posture of the JV is in its best interest. Another manager may decide that when facing a choice, the alternative which is expected to yield the highest profit has to be selected (assuming the JV is considered as a profit center). Meanwhile, in one of the JVs which has been assigned a common set of objectives by its parents, a manager may decide that anything consistent with these objectives is in the best interest of
the JV.

When the JV has been assigned a set of agreed upon objectives, or is considered as a profit center, by its two parents, it is easy to decide what is in the best interests of the JV. However, it is important to recognize that the JV's interests are a reflection of the parents' interests who define them: they are not independent. The separation between the JV's and a parent's interests occurs when the JV intend to carry out an activity which is consistent with its interests, as defined by its objectives, but which is contrary to a parent's interests. The typical example given by managers is when a MNC parent wants the JV to cut exports to foreign countries; it can serve through a wholly-owned plant which has a temporary over-capacity problem. In this case what is in the best interest of the JV is no longer in the best interest of the parent and conversely. Also the JV's interests do not come out of nowhere. They were originally defined (or at least agreed upon) by the parent itself.

In cases where the JV does not have a specific set of objectives assigned, managers use the term JV's interest to refer to undefined, non-explicit objectives that the JV would strive for were it an independent company (e.g. increase market share, maximize profits, improve profitability...). In this sense the JV's interests are not necessarily a reflection of the parents' interests; they are simply a concept, an ideal, that managers feel is useful to settle a conflict
between the two parents. They suggest that rather than seeing one partner win and the other lose over a specific issue, it might be better to see the JV win, even if in practice it is the same thing.

In summary, the purpose of the concept of a JV's interests is to provide a neutral criterion for solving differences in points of view between the parents. In the long run the JV's interests need to be consistent with the parents' for the JV to survive; otherwise the incentive for the parents disappears.

7. Summary

By identifying the criteria used by managers in parent companies in evaluating JV success, this chapter has revealed the complexity of the concept of JV success and the difficulty of capturing this complexity in a single indication. The major findings presented in this chapter are:

- managers form a judgment on JV success by considering a combination of criteria which can be of a qualitative or a quantitative nature, or both
- managers in the two parents seldom use a common set of criteria. The dimensions important to one parent are often different from those important to the other parent (growth vs profits, long term vs short term...)
- the criteria which are relevant at one point in time may be
irrelevant at another time (priorities change).

In trying to take into account the implications of those findings for the development of a measure of JV success, this researcher defined JV success as the ability of a JV to meet the expectations of its parents. This definition was erationalized by placing JVs in the JV success matrix based on whether a JV is successful or unsuccessful in the eyes of its MNC parent on the one hand and of its local parent on the other hand.

An important difference between this study and previous studies is that this research looks at changes in JV performance over time. Before examining how changes in parent control are associated with changes in JV performance, a better understanding of what parent control means in the context of JVs is required. Developing such an understanding from the Mexican data is the purpose of the next chapter.
CHAPTER VI - PARENT CONTROL IN JOINT VENTURES.

The preceding chapter was concerned with developing an understanding of JV success. It described and analyzed the criteria used by managers in parent companies to measure JV performance. From the analysis a successful JV was defined as a JV which met simultaneously the criteria of success of its two parents.

The present chapter is the second step in the effort to develop an understanding of the relationship between parent control and JV success. It discusses the concept of control as it emerged from analysis of the Mexican data. The chapter begins with a discussion of the wide diversity of control mechanisms used by parent companies. Next, from a study of those mechanisms, two types of control are identified, positive control (proactive mechanisms) and negative control (reactive mechanisms). Then, the validity of the observations made by this researcher regarding the meaning of control is supported by reference to studies on related concepts from other fields. Support is also given for the proposition made in Chapter III of this dissertation that it is more useful to look at control by addressing the questions of who controls what, why and how, rather than trying to measure the amount of parent control.

Finally, a model of control is proposed, which builds on previous studies and incorporates the findings of the present research.
1. Control Mechanisms Used by Parent Companies.

Parent companies have been found to use a greater number of mechanisms to influence the management of JVs than has generally been recognized in earlier studies (see Table VI-1). Among these mechanisms are the formal devices whereby a parent is directly involved in the management of the JV but also the more subtle processes through which a parent influences the strategy-making process of the JV. This section reviews the following ways in which parent companies influence the JVs studied:

1 - the JV contract
2 - the JV's board of directors
3 - staffing
   - appointment of JV managers
   - reinforcing managers' allegiance to parent
4 - structural context
   - JV planning process: influence over formulation and monitoring implementation
   - administrative systems shaping decision-making environment
5 - provision of staff services
6 - developing a working relationship with partner

Managers in both parents believe that the contract establishing the JV is extremely important in the Mexican context. Typically the contract spells out the rights and responsibilities of each parent and sometimes includes information on how to solve potential conflicts. The importance of the contract as a control mechanism is captured in the following statement by the VP in a large Mexican group (A) involved in 15 JVs in Mexico (Mexican parent JV TOP).
The main element of trust between partners is a good contract, containing a good set of by-laws which conditions the behavior of both partners and establishes the way of life of the newly formed corporation. A contract must give a sense of assurance to both partners that their investment is protected and that both will be undergoing a fair deal.
<table>
<thead>
<tr>
<th>BOARD</th>
<th>LOCAL PARENT</th>
<th>LOCAL PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE COMMITTEE</td>
<td>IRAA</td>
<td>QA, IRAA</td>
</tr>
<tr>
<td>MANAGEMENT CONTRACT</td>
<td>CT, HAL (until 1980), PAC</td>
<td>TOP, PAC, NIL</td>
</tr>
<tr>
<td>TECHNOLOGY TRANSFER CONTRACT</td>
<td>QA, TOP, RUF, HAL, SON, IRAA (until 1981), PAC, NIL</td>
<td></td>
</tr>
<tr>
<td>MARKETING CONTRACT</td>
<td>TOP, QA</td>
<td></td>
</tr>
<tr>
<td>SUPPLIER CONTRACT</td>
<td>TOP</td>
<td></td>
</tr>
<tr>
<td>JVGM APPOINTMENT</td>
<td>CT, RUF (after 1978), HAL, AP, SON, PAC</td>
<td>TOP, RUF (until 1978), NIL</td>
</tr>
<tr>
<td>JVGM ON PARENT'S PAYROLL</td>
<td>CT, PAC</td>
<td></td>
</tr>
<tr>
<td>JVGM'S BONDS TIED TO PARENT RESULTS</td>
<td>CT, PAC, AP</td>
<td>NIL</td>
</tr>
<tr>
<td>JVGM PARTICIPATION TO PARENT WORLDWIDE MEETINGS</td>
<td>RUF, HAL, AP, PAC</td>
<td></td>
</tr>
<tr>
<td>OTHER JV STAFF:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FINANCE</td>
<td>IRAA</td>
<td>QA, IRAA, NIL</td>
</tr>
<tr>
<td>PRODUCTION</td>
<td>PAC</td>
<td>NIL</td>
</tr>
<tr>
<td>MARKETING</td>
<td>CT, HAL, AP, SON</td>
<td>NIL</td>
</tr>
<tr>
<td>CT, QA</td>
<td>NIL</td>
<td></td>
</tr>
<tr>
<td>BUDGET, FINANCIAL PLAN, INTERACTIVE FORMULATION</td>
<td>NIL (after 1979)</td>
<td>QA, IRAA, NIL</td>
</tr>
<tr>
<td>PLANS APPROVAL/FEEBACK</td>
<td>QA, TOP, RUF, IRAA, AP, NIL, PAC</td>
<td>QA, TOP, IRAA, NIL, AP, PAC</td>
</tr>
<tr>
<td>PLAN FORMULATION</td>
<td>STRATEGIC</td>
<td>TOP, IRAA, AP, PAC</td>
</tr>
<tr>
<td></td>
<td>OPERATING</td>
<td>RUF, NIL (after 1979), PAC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>QA, NIL, TOP</td>
</tr>
<tr>
<td>PLAN IMPLEMENTATION</td>
<td>STRATEGIC</td>
<td>IRAA, AP, RUF</td>
</tr>
<tr>
<td></td>
<td>OPERATING</td>
<td>TOP, IRAA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IRAA, NIL</td>
</tr>
<tr>
<td>JV's POLICIES AND PROCEDURES</td>
<td>CT, PAC, SON, AP, RUF</td>
<td>NIL, TOP</td>
</tr>
<tr>
<td>APPROPRIATION REQUESTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DESIGN</td>
<td>IRAA, AP, PAC, RUF</td>
<td>NIL</td>
</tr>
<tr>
<td>APPROVAL</td>
<td>TOP, RUF, HAL, IRAA, NIL, PAC, AP</td>
<td>TOP, HAL, AP, NIL</td>
</tr>
<tr>
<td></td>
<td>MC PARENT</td>
<td>LOCAL PARENT</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>STAFF SERVICES</td>
<td>RUF, HAL, IRSA, AP, NIL</td>
<td>HAL, IRSA, NIL</td>
</tr>
<tr>
<td>TRAINING JV PERSONNEL</td>
<td>CT, QA, HAL, IRSA, NIL, AP</td>
<td>NIL, IRSA</td>
</tr>
<tr>
<td>INITIATION OF INFORMAL CONTACTS WITH OTHER PARENT</td>
<td>MEETINGS PRESENTATIONS, QA, PAC, HAL, SON</td>
<td>QA, TOP, PAC</td>
</tr>
<tr>
<td></td>
<td>DEVELOP PERSONAL RELATIONSHIP, AP, IRSA, TOP</td>
<td>IRSA</td>
</tr>
<tr>
<td>RELATIONS WITH JVVM</td>
<td>REGULAR FORMAL MEETINGS, TOP, AP, PAC</td>
<td>NIL, PAC</td>
</tr>
<tr>
<td></td>
<td>REGULAR PHONE CALLS, AP, PAC</td>
<td>NIL, PAC, IRSA, SON, TOP, CT</td>
</tr>
<tr>
<td></td>
<td>DEVELOP PERSONAL RELATIONSHIP, RUF, AP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>VISITS FROM PARENT, TOP, RUF, IRSA, PAC, AP, NIL, SON</td>
<td>NIL</td>
</tr>
<tr>
<td></td>
<td>WEEKLY</td>
<td>PAC</td>
</tr>
<tr>
<td></td>
<td>MONTHLY AND QUARTERLY</td>
<td>CT, QA, TOP, RUF, HAL, SON, IRSA, PAC, AP, NIL</td>
</tr>
<tr>
<td>REPORTS FEEDBACK</td>
<td>PROGRESS REPORTS ON PROJECTS, TOP, IRSA</td>
<td>IRSA</td>
</tr>
<tr>
<td>STAFFING IN PARENT WITH SOMEONE WITH EXPERIENCE IN JV</td>
<td>PAC, AP</td>
<td>IRSA</td>
</tr>
<tr>
<td>PARENT ORGANIZATIONAL STRUCTURE</td>
<td>QA, RUF (after 1978), PAC, AP, NIL, IRSA; SON, HAL (after 1979)</td>
<td>QA, TOP, HAL, SON, IRSA, NIL, PAC</td>
</tr>
<tr>
<td>PMG WITH ORGANIZATIONAL LEVEL IN MEXICO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO-OBJECTION OF PARENT BEFORE JVVM PRESENTS PROJECTS/IDEAS TO OTHER PARENT</td>
<td>PAC, AP</td>
<td>NIL</td>
</tr>
<tr>
<td>DECISION-MAKING: MARKETING, PRODUCTION, FINANCE, PERSONNEL, GOVERNMENT RELATIONS JVVM's OBJECTIVES</td>
<td>CT, QA, TOP, TOP, SON, NIL, QA, PAC</td>
<td>SON, QRA, NIL, PAC, SON, IRSA, NIL, QA, TOP, HAL, IRSA</td>
</tr>
<tr>
<td></td>
<td>RUF, AP, PAC</td>
<td></td>
</tr>
</tbody>
</table>
One of the main points of discussion is who will manage the company. Again, there are various ways of arriving at a satisfactory practice. A's experience has indicated that the most successful formula is for A to manage the company. We give the foreign partner the joint management at board of director's level with equal rights in the overseeing of operating budgets, investment approvals, divestments, and lines of business. Sometimes, considering the nature of the business, it will also include executive compensation, service contracts and credit approvals. Certainly, in some instances it is practical to set ranges in terms of time, amount and quality. The idea is to give the foreign partner peace of mind, the assurance that its participation in the important matters is taken into consideration and that the management can meet the objectives without a straight jacket, but with controlled freedom. (2)

The contract for the JV TOP (in which A is involved) spells out areas in which the Mexican parent and the Canadian parent are expected to exercise influence, as well as areas in which both parents have an opportunity to exercise influence. This is done in the six agreements covering the operation of the JV:

- Shareholders agreement: protects the minority shareholder and gives him a veto right on major issues

- Articles of incorporation and by-laws

- Professional services agreement: A provides services such as accounting, purchasing... for a fixed fee

- Technical agreement: specifies the conditions of the technology transfer by the Canadian parent

- Marketing outside Mexico: the Canadian parent becomes the international marketing representative for the JV
- Supplier agreement: the Canadian parent supplies the JV with specific component parts.

Thus, in the case of TOP, the Mexican partner controls the operating management, the Canadian partner controls export sales, technology and certain supplies, and both partners may have control over "major decisions" through the JV's board.

The boards of directors play a very important managerial role in Mexican firms and therefore they constitute a key influence arena. Boards, in which the two partners are involved, make most of the JVs' strategic decisions. They are also used to provide the JVGM with the insights and experiences of the parents' managers. The board is an important device for the exercise of control, especially for the foreign minority partner because in most cases, as in the example of the JV TOP described above, it has a veto power on major issues. Generally, it is not the board meeting per se which is the important managerial tool, but rather the meeting(s) held prior to the board meeting. All managers involved in board meetings in Mexico have strongly pointed out that it is a rule to avoid confrontations during board meetings and that differences have to be solved before. Typically decisions are taken at the pre-board meeting and ratified at the board meeting. Who has influence over those decisions is determined through a bargaining process, and therefore a parent's ability to influence the JV through the board depends on how strong its
bargaining position is and on how good it is at bargaining.

Parent companies also exercise influence over the management of the JV when they are in a position to appoint key JV executives. Managers in minority parent companies all agree that the ability to appoint the JVGM is a good way of compensating for the loss of control due to the minority position. In their view staffing is considered as a means of restoring the balance of power between the two partners. (Table VI-2 shows that the JVGM is appointed by the MNC parent in six JVs and by the local parent in three.)

However, the ability to nominate the JVGM does not provide a parent company with full control over a JV. Typically, it tends to enable a parent to make sure that the JV is managed in a way consistent with its own criteria of good management or that its point of view is taken into consideration in discussions between the JVGM and the other parent. But it does not mean that the JVGM will attempt to maximize the interests of the parent he comes from in all circumstances. As indicated in chapter V, the JVGM attempts to satisfy the interests of the two parents and therefore looks for compromises when those interests are divergent. In such circumstances a parent nominating the JVGM has been found to have control over a JV not because it influences the selection of the "best" (in its view) alternative but because it prevents the selection of an alternative which is contrary to its interests.
Two reasons may explain that the behavior of a JVGM will reflect, at least to a certain extent, his allegiance to his parent. First, a JVGM whose future promotion and career plans in the parent company depend on his performance in the JV will think twice before supporting a project that his parent would not favour - this point clearly came out in five of the JVs. Second, a JVGM who has been trained during a number of years in one parent has been "socialized" to his parent's way of doing business, and JVGMs pointed out that their previous experience with a parent helped them reduce some of the uncertainty of having to guess what they had to do well to be successful.
<table>
<thead>
<tr>
<th></th>
<th>NOMINATED BY, AND COMING FROM THE MNC’S ORGANIZATION</th>
<th>NOMINATED BY, AND COMING FROM THE LP’S ORGANIZATION</th>
<th>OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRSA</td>
<td></td>
<td></td>
<td>MEXICAN - Former G.M. of one of the two Mexican partners</td>
</tr>
<tr>
<td>WIL</td>
<td></td>
<td></td>
<td>MEXICAN (3 JVGMs)</td>
</tr>
<tr>
<td>PAC</td>
<td>MEXICAN (last 3 JVGMs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AP</td>
<td>CANADIAN (last 2 JVGMs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOP</td>
<td>DUTCH (2 JVGMs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAI</td>
<td>CANADIAN (until 1974)</td>
<td>ITALIAN (after 1974)</td>
<td></td>
</tr>
<tr>
<td>TOP</td>
<td></td>
<td></td>
<td>MEXICAN</td>
</tr>
<tr>
<td>QA</td>
<td></td>
<td></td>
<td>CANADIAN - Hired by JV’s board</td>
</tr>
<tr>
<td>CT</td>
<td>CANADIAN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BUF</td>
<td>MEXICAN (until 1978)</td>
<td></td>
<td>MEXICAN - Consultant hired by MNC</td>
</tr>
</tbody>
</table>
Parent companies, especially the MNC parents, used other devices to reinforce the JVGM's allegiance:

- in two JVs the JVGM remained on the MNC parent's payroll
- in four JVs the bonus of the JVGM was tied to the MNC parent's results
- in four JVs the MNC parent required that the JVGM participate in its worldwide management or technical meetings.

In addition to exercising an influence at a general management level through the appointment of the JVGM, parents also controlled specific functions by appointing the managers in charge. Production and technology related functions were the ones most often controlled by a parent's manager (5 JVs), followed by marketing (3 JVs) and finance (2 JVs). Appointments were both on a permanent basis or on a temporary (2 years for example) basis.

The JV's planning process is used as a control mechanism in different ways. Some parents are simply interested in the operating plans, others are interested in both strategic and operating plans. For each of these plans various degrees of parent involvement are observed. Parent involvement ranges from direct participation in the preparation of all phases of the plan and close monitoring of its implementation to simple approval of the plan once it is ready. A few brief examples may be useful to illustrate various forms of parent control over the JV's planning process.
In the JV IRSA, the Mexican parent participates in an interactive fashion in the preparation of the budget and financial plan only, while the MNC parent participates in the preparation of the strategic plan and monitors its implementation through regular progress reports on which it gives feedback.

In the JV NIL, the local parent does not participate in the actual formulation but has to approve the preparation of each phase of the planning process. The specific activities to be carried out during each phase and their deadlines have been imposed by the local parent itself. In the same JV the MNC parent only participates in the preparation of the operating plan by sending people from the US to join the JV staff for that specific phase.

In the JVs AP and RUF the plan is prepared by the JVGM and has to be approved at the parent's VP level before it is presented to the board of the MNC parent. A difference between the two processes however, is that in AP the JVGM is provided with a set of assumptions (interest rates, exchange rates, GDP growth, population growth) by the MNC parent - as in PAC and NIL - while in RUF the JVGM works from his own assumptions.

An indirect way through which parent companies exercise control over the JV is by shaping the context within which decisions are made. For instance, a parent influences the management of the JV by having the JV
adopt policies and procedures consistent with the satisfaction of its own interests. In six JVs, one parent (the MNC parent in four, the local parent in two) had replicated or adapted its own procedures to the JV. In one JV (SON) it was the JVGM who, in the face of the uncertainty of having to run a company in a new cultural, economic and political environment, felt the need to recreate a working environment with which he had some familiarity, and consequently he implemented policies that he had learned in his parent company.

Parents also shape the decision-making environment of the JVGM through the structure, the nature and the frequency of the reporting relationships to the parents. Even though JVGMs would like to see their main reporting relationship to the board of the JV, in reality it is with each parent separately since issues brought to the board have always been discussed with the parents before in order to avoid surprises or conflicts at the board meeting. In four JVs – AP, NIL, CT and PAC – the reporting relationship was clearly with one parent first and the other second:

The hierarchy of my reporting relationship is: Rio first (VP Latin America), Montreal second (corporate headquarters) and the board third. (JVGM AP)

Before I present any project to the Mexican parent, I need the no-objection—from my boss, the president for the Mexican operations of the American parent, the executive committee and the board in the US. (JVGM PAC)

In such circumstances, the parents are in a position to filter projects, approve those that they feel are consistent with their own
interests and reject those that are not, before the other parent has even had a chance to examine them. In addition to playing the role of a filter, the reporting relationships to the parents also serve to put pressure on JV managers. Managers from the parent companies use formal and informal face-to-face meetings or telephone calls as devices to influence JV managers. Such devices proved particularly useful in increasing commitment of the JV managers, in sending signals, through feedback and comments, regarding what is expected from them, and in turn in influencing the way they carry out their functions.

In terms of formal reports, the requirements of the parents differ markedly in number, detail and kind. Some parents ask for weekly financial and operating data while others are happy with monthly and quarterly financial reports. Some parents use progress reports on projects, "strategy papers", while others do not. A report that parents in five JVs found particularly useful to shape the direction the JV takes is the appropriation request. Depending on the kind of information and the amount of detail they require, parent companies influence the nature of the projects that are submitted by the JV, the kinds of returns they have to generate etc...

Some parent companies influence the way things are done in the JV in specific areas through the provision of staff services or through training programs for JV personnel. Three specific gains in control may accrue to parent companies:
(1) they increase the chances that a particular task will be carried out to their satisfaction
(2) they are seen in one parent as a tool to build employee loyalty and a cohesive organization
(3) they help managers in the parent to know and understand better the JV’s situation. It can reach the point where as the JVGM in NIL put it:

Our local parent is interested in providing certain services that I do not feel really necessary. For instance they use their own internal auditors to collect and process more information than required because they want this information to better control the JV.

Finally other mechanisms used by parent companies to influence the management of JVs are by developing a working relationship with the parent, by putting someone at headquarters’ level – or in the reporting hierarchy – with experience in the JV, or by having a hierarchical level in Mexico to supervise the JV and put pressure on the JVGM. Managers, particularly in MNC parents, have indicated that they can influence their partners more successfully when they invite them to attend presentations on new products or new technologies at the headquarters:

It is easier for us to show the Mexicans what opportunities are open for the JV and at what cost. For example the Mexicans want to go into product E. We have taken the Mexican board members to Rio and we have shown them the equipment required which costs 50 million dollars. Now they understand better what the move means for the JV. (JVGM AP)
By having someone in the reporting chain with experience in the JV, parents have been in a position to interpret better the information coming from the JV and to behave accordingly. The MNC parent in PAC for example has put the former JVGM as the first reporting level for the JVGM. In the case of AP, the former JVGM is now assistant to the VP at the headquarter's level.

The same benefit was mentioned by MNC parent companies which have a reporting level in Mexico. In one case a manager had been appointed on a temporary basis - 2 years - "to make sure that the JV is operated in a way which does not risk or jeopardize the position of the Canadian parent". (JV TOP).

In summary, this section has presented various mechanisms used by parent companies to influence the way their JVs are managed. In what circumstances and how successfully this mechanisms are used is discussed in chapter VII of this thesis. At this stage it is important to recognize that control can be exercised through a wider diversity of mechanisms than is generally acknowledged. The identification of those mechanisms represents a first step towards a better understanding of the concept of control. Also, it is important to realize that control is exercised through more than the formal devices traditionally found in the literature, such as the agreements included in the JV contract, the structural arrangements used to shape the way decisions are made in the JV (measurement system, reward and punishment system,
reporting...), the direct involvement of a parent in the JV's decision-making process or in specific activities (planning, marketing, production...). Control is achieved through bargaining, face-to-face meetings, phone calls and other informal devices which have been found to play an important role in the overall influence effort of the parent company. Ignoring such devices is missing an important dimension of the control process.

2. Positive and Negative Control.

The investigation of the control experience in the sample JVs was undertaken with the understanding that a parent has control when it is in a position to influence activities or decisions in a way consistent with its own interests and expectations. The implicit assumption in this view of control is that control is a proactive process which originates at the parent level. More specifically, the process starts with a parent saying "I would like the JV to do this in this way" and continues with the parent attempting to influence the JV through certain control mechanisms. An examination of the control mechanisms reviewed in the previous section reveals that this understanding, although correct, is only partial.

A second way in which parent companies have been found to exercise control over a JV is when they are in a position to prevent decisions or activities they do not agree with from being implemented. This latter form of control has been named negative control because through
it a parent has the ability to protect its interests by preventing things from happening in the JV. In contrast, the former form of control has been named positive control because through it a parent is in a position to proact. In other words, through negative control a parent is in a position to influence what the JV does not do rather than influence directly what the JV does.

The role played by a parent is different in each of the two forms of control. When it exercises positive control, a parent decides that it would like the JV to do something in a certain way and then it uses specific control mechanisms to influence the JV. Whereas when it exercises negative control, a parent only approves or rejects a decision concerning what the JV should do in the JV (or in the other parent). Negative control mechanisms are particularly useful to MNC minority parents because there is a feeling among Mexican parents that it is not the role of the foreign parent to tell the Mexicans how to run their business. Foreign parents sometimes find themselves in situations in which their only possibility to exercise influence is through negative control.

A parent can exercise negative control when it has a veto right over specific decisions such as dividends, long-term debt, acquisitions, divestments, issue of preferred stock or bonds, change in equity. Typically the veto right is conferred to a minority partner through a requirement included in the JV contract that decisions such as those
outlined above need one more vote than the total held by the majority partner (PAC) or 80% of the votes (QA) to receive board approval. It is interesting to note that the term veto right has a negative connotation to many majority partners. As a VP in the Mexican parent of PAC puts it:

No, our partner does not have a veto right. We want to see it from a positive side: both parents have to agree on the important decisions.

By allowing the minority partner to have a say in the important decisions, and by accepting that such decisions be approved by both partners before they are implemented, the majority partner is de facto providing the minority partner with an opportunity to exercise control over a number of decisions. This de facto veto right enables the minority partner to exercise negative control by permitting it to prevent its partner from imposing a decision it does not agree with on the JV. But the veto right also gives the minority partner an opportunity to exercise positive control since it has a chance to present its views on an issue and therefore a chance to influence its partner. In this case, to exercise control over the JV, a parent needs to influence its partner first. In the Mexican JVs studied this is done by influencing the board members because of the importance of the board as a decision-making body. As a result, control over a JV is not always exercised directly by one parent on the JV, but it is also exercised indirectly by one parent on its partner first and then on the JV (Figure VI-1 illustrates the flow of the control process in the two instances).
Figure VI-1: Two ways of exercising control over a JV

Directly Over the JV

MNC PARENT  ----------> LOCAL PARENT

JV BOARD

JV

Indirectly Through the Other Partner

MNC PARENT  ----------> LOCAL PARENT

Step 1

Step 2

JV BOARD

Step 3

JV
Besides a veto right over specific decisions, a parent also has negative control whenever its approval is required before specific activities are carried out by the JV. For instance, plans, projects, and budgets typically need to be approved by both partners. Finally, some parents have negative control when they screen ideas or projects before the JVGM is allowed to discuss them with the other partner (PAC, AP, NIL).

Positive control, on the other hand, is exercised through a wider range of mechanisms than negative control (see Table VI-3 for a list of positive and negative control mechanisms). Through some mechanisms, managers from one parent are directly involved and do not allow managers in the JV to choose for themselves how to carry out, or achieve through, specific activity. For instance, in the JV AP, the objectives of the JVGM are set by the VP for Latin America in the MNC parent. In the JVs SON, PAC, TOP, the MNC parent imposes the quality standards. In the JVs IRSA, HAL and TOP the Mexican parent handles all decisions dealing with government relations.
<table>
<thead>
<tr>
<th>POSITIVE</th>
<th>NEGATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Ability to make specific decisions</td>
<td>- Board</td>
</tr>
<tr>
<td>- Ability to design:</td>
<td>- Executive committee</td>
</tr>
<tr>
<td>1) Planning process</td>
<td>- Approval required for:</td>
</tr>
<tr>
<td>2) Appropriation requests</td>
<td>1) Specific decisions</td>
</tr>
<tr>
<td>- Policies and procedures</td>
<td>2) Plans, budgets</td>
</tr>
<tr>
<td>- Ability to set objectives for JVGM</td>
<td>3) Appropriation requests</td>
</tr>
<tr>
<td>- Contracts: management</td>
<td>4) Nomination JVGM</td>
</tr>
<tr>
<td>technology transfer</td>
<td>- Screening/No objection of parent</td>
</tr>
<tr>
<td>marketing</td>
<td>before ideas or projects are</td>
</tr>
<tr>
<td>supplier</td>
<td>discussed with other parent</td>
</tr>
<tr>
<td>- Participation in planning or budgeting process</td>
<td></td>
</tr>
<tr>
<td>- Parent organization structure</td>
<td></td>
</tr>
<tr>
<td>- Reporting structure</td>
<td></td>
</tr>
<tr>
<td>- Staffing</td>
<td></td>
</tr>
<tr>
<td>- Training programs</td>
<td></td>
</tr>
<tr>
<td>- Staff services</td>
<td></td>
</tr>
<tr>
<td>- Bonus JVGM tied to parent results</td>
<td></td>
</tr>
<tr>
<td>- Ability to decide on future promotion of JVGM (and other JV managers)</td>
<td></td>
</tr>
<tr>
<td>- Feedback: strategy/plan budgets, appropriation requests</td>
<td></td>
</tr>
<tr>
<td>- JVGM participation in parent's worldwide meetings</td>
<td></td>
</tr>
<tr>
<td>- Relations with JVGM: phone calls, meetings, visits</td>
<td></td>
</tr>
<tr>
<td>- Staffing parent with someone with experience with JV</td>
<td></td>
</tr>
<tr>
<td>- MNC level in Mexico</td>
<td></td>
</tr>
<tr>
<td>- Informal meetings with other parent</td>
<td></td>
</tr>
</tbody>
</table>
Through other mechanisms parents do not exercise influence directly. Rather, they attempt to induce decisions and behaviors in the JV which are consistent with their own expectations, by trying to put pressure on JV's managers, trying to socialize them, trying to influence the way they carry out specific activities, or trying to make them focus on what the parents feel is important. For instance a parent sets the policies and procedures within which managers in the JV operate or make decisions. In the JV's PAC, AP and NIL the bonus of the JVCM is tied to one parent's results and his future promotions are decided by one parent. In the JV RUF the training programs are seen as a tool to build employee loyalty to the MNC parent, while in the JV IRSA they have been used to influence the way market studies and auditing are done in the JV.

It is important to recognize that the positive and negative forms of control are not mutually exclusive. As indicated earlier, through negative control a parent is in a position to protect its interests by preventing something it does not agree with from being implemented. In a way this is a last resort mechanism. For instance in the case of the veto right, because a minority parent can vote down a specific decision at the board meeting, the two partners are forced to arrive at a mutually acceptable agreement during the pre-board meetings. In turn, during those negotiations, the minority partner has an opportunity to exercise positive control since it has an opportunity to defend its own views and to influence its partner.
In the case of the approval of projects, a parent can prevent a project it does not like from being carried out. But it can also influence the kinds of projects that are submitted by giving feedback and making its criteria explicit.

This section has presented two dimensions implicit in the concept of control:

1. A positive dimension, whereby a parent is in a position to promote its interest by influencing the JV,

2. A negative dimension, whereby a parent is in a position to protect its interest by preventing the JV from implementing decisions it does not agree with.

Also, in order to understand how a parent controls a JV, one needs to understand how it influences its partner as well as the JV.

3. Towards a Better Understanding of the Concept of Control.

The findings on control reported in the previous sections of this chapter represent a major departure from the traditional treatment of parent control found in other studies on JVs. Four basic differences may be identified. First, it has been found that control is exercised through a wider diversity of mechanisms than is generally recognized. The evidence presented in section 1 suggests that the locus of decision-making and staffing, the two most commonly used indicators of parent control in JVs, give a very limited idea of the range of formal
and informal, direct and indirect control mechanisms actually used.

Second, the review of the control mechanisms used by parent companies led to the identification of two kinds of control: positive and negative. The basis for the distinction lies on whether the mechanisms are used to promote (proactive mode) or to protect (reactive mode) a parent's interests.

Third, this researcher has argued that trying to measure the amount of parent control, as earlier studies did, is not a meaningful way to approach the issue of control. The analysis of the Mexican data suggests that a better understanding of parent control is gained by looking at what and how parent companies control instead of looking at how much control they have.

These major differences between previous operationalizations of parent control in JVs and the understanding of the concept of control which emerges from this study raise an important question: what is the validity of the observations and analysis reported in the present study?

The present section addresses this issue by examining how the phenomenon described here is consistent with other theoretical and empirical studies on control and related concepts. In the process, it is hoped to clarify the concept of control and thus to make a
contribution to theory building. Such a contribution is badly needed in the present circumstances because there is no established consensus on what control means. Some authors use control in a broad sense, synonymously with the notions of power, influence or authority, while other authors differentiate between the various concepts (see Tannenbaum (4)). There is a lot of ambiguity surrounding concepts such as control, power, influence and authority. Dahl suggests that this ambiguity stems from the fact that researchers frequently do not define these terms, and when they do, they do not agree with each other (5).

The lack of consensus on terminology certainly hampers any discussion of the concepts and consequently hinders the development of useful theories. But it also reveals how limited is the existing understanding of the concepts involved, in spite of the extensive and insightful work that has been carried out around the issues of power, control, influence and authority. The extent of the problem can be illustrated by two examples.

First, one definition can be applied by different researchers to different concepts. This is the case of "the ability to change the probability of occurrence of a behavior", which is used as the definition of control by Thibaut and Kelley (6), of power by Dahl (7), and of influence by Gamson (8).

Second, one term is often defined by reference to the other. For
instance the Webster's Third New International Dictionary defines control in terms of influence ("to exercise restraining or directing influence over"), while it defines influence as "the exercise of power". On the other hand, power is defined in terms of control ("ability to compel obedience: control, dominion"). Authority seems to be the only concept for which there is an agreed-upon definition: authority refers to the 'Formal right to exercise power' (what some refer to as legitimate power).

The objective of the present research is not to resolve the semantic debate which has been going on for years. Rather, it is intended to situate control in the context of the wide family of mechanisms that Parsons (9) calls "ways of getting results" and Dahl (10) calls "influence-terms": power, influence, authority, coercion, persuasion, etc...

Although the concept of control emerging from this study is not consistent with previous treatments of parent control in JVs, it is consistent with earlier work dealing with the "influence-terms" in psychology, sociology, and organizational behavior. The following five points are examined in turn and show how this researcher's findings relate to concepts used in fields other than International Business:

- Means of control
- Control characterizes interactions between people
- It is difficult to measure the amount of control
- Control is context specific
- Single instance control vs permanent control.

Means of Control

The control mechanisms identified in this thesis (see Section 1.) can be related to various classifications developed by researchers on power and influence. Two types of classifications have been identified in the literature:

- classification of the means of power or influence
- classification of the bases of power or influence.

Typical of the first type are Parsons' (11) and Dahl's (12) classifications. Parsons classified the "ways of getting results" in four categories: persuasion, inducement, activation of commitments and deterrence. These four categories are implicit in Dahl's: trained control, persuasion (rational and manipulative), inducement (rewards, power, coercion and physical force). Except for trained control, which is discussed later in this section, both authors agree to differentiate between persuasion (positive and negative) which is exercised through the use of information, and inducement (positive and negative) which is exercised through the use of rewards and sanctions.

This differentiation is useful to characterize the way the control mechanisms identified in this research are used by parent companies.
For instance, control is exercised through persuasion when a parent is successful in convincing the JV's board to approve a change in the JV's manufacturing process (JV PAC). Likewise, control is exercised through inducement when a parent manipulates the JVGM's bonus and promotion system (JV NIL).

In the same way, the control mechanisms can be related to the classifications of the second type, dealing with the bases of power. Bacharach and Lawler (13) - drawing on the work of French and Raven (14) - and Etzioni (15) have identified four bases of power: coercive, remunerative, normative and knowledge.

The coercive base of power is the control of punishment, the remunerative base of power is the control of rewards, the normative base is the control of symbols, and the knowledge base is the control of information (16).

The observation that parent companies control their JVs through the manipulation of punishments, rewards, symbols and information does not mean that control is power. Power is fundamental to the exercise of control as defined in this thesis, but it is limited to what is called here positive control. Implicit in the concept of power is the proactive dimension identified in the analysis of how parent companies exercise control over their JVs. But as shown in section 2, there is also a negative dimension in the concept of control which does not exist in power. Also lacking in the idea of power, but present in that of control is the monitoring aspect. In other words power is a key ingredient of the concept of control as it emerges from this study.
Power is a means to exercise control, but control contains two characteristics other than and in addition to power: the negative dimension and the monitoring aspect.

Control characterizes interactions between people

The expression "parent control over a JV" is misleading because it conceals a fundamental reality that control is exercised by managers over other managers and not by one organization over another organization. The dangers of attachiong the notion of control to macro entities are similar to those outlined by Bacharach and Lawler with respect to power:

First, the resulting verification neglects the interactional dynamics inherent in the concept of power. Second, it distracts attention from the manner in which these dynamics impinge on and are manifested in intraorganizational relations. Treating power as simply another macroorganizational characteristic results in the neglect of organizational politics (17).

The same is true for control. The evidence collected for this research suggests that control is not only exercised through formal devices such as the hierarchical reporting system, the reward and punishment system, etc..., but also through informal and subtle interactions between people (phone calls, face to face meetings). This is the case when managers from one parent make specific efforts to develop a good relationship with JV or their partner's managers in order to be able to discuss disagreements without alienating the other party. This is also
the case when managers from one parent convince managers from the other parent to go along with a specific course of action through a bargaining process carried out in the pre-board meetings.

The control mechanisms identified in this study suggest that to understand control it is important to understand how managers induce, persuade, coerce other managers to act in ways consistent with their own intentions. In other words it is important to understand politics. As a result, the notion of control developed in the present thesis is in agreement with Bacharach and Lawler's view of power presented earlier.

Even though this researcher recognizes that individuals exercise control over individuals, and not organizations, the expression "parent control over a JV" is kept for the rest of the study.

It is difficult to measure the amount of control

In presenting the research methodology for this dissertation, this researcher argued that it is difficult to measure the amount of parent control over a JV as previous studies on JVs tried to do. It was difficult to compare the control exercised by two parents when each parent controls a different set of areas, activities or decisions. The task was also made difficult by the lack of an overall index which combines various dimensions of control in a single meaningful measure.
The argument above is supported by Dahl's analysis of the notion of relativity as it applies to influence:

But how would one go about measuring the relative amount of power or influence of different actors in a system?... no one has yet been able to show how we might meaningfully describe the distribution of influence in the same way that we can describe the distribution of IQ test scores among school children, or yesterday's noon temperature in various cities of the world, or the income of American families... it is by no means clear how we can "add up" influence over many different scopes and domains in order to arrive at a total, or aggregate, influence. (18)

Dahl's comments can be applied to control as well, because it is one of the notions that Dahl includes in the "influence-terms". Consequently, there is some foundation to the conclusion, based on an analysis of the Mexican data, that viewing control in terms of degree is not feasible. This point is reinforced in the following sub-section.

Control is context specific

This researcher has argued that it is more meaningful to approach the issue of parent control in relation to a specific area, activity or decision rather than from the perspective of the "overall control" as previous studies on JVs have done. Support for the idea that control can be better analyzed and understood by reducing the unit of analysis to a single "influence-area" is found in earlier studies on related concepts. Pfeffer, for instance makes the point in the following terms:
.power is context or relationship specific. A person is not "powerful" or "powerless" in general, but only with respect to other social actors in a specific social relationship. (19)

Dahl denounces the lump-of-power fallacy:

Power is thought of often as if it were a single, solid, unbreakable lump. (20)

Later he continues,

Any statement about influence that does not clearly indicate the domain and scope it refers to verges on being meaningless. Where one hears that A is highly influential, the proper question is: Influential over what actors with respect to what matters? (21)

In other words, the point made here is, using Dahl's terminology, that previous researchers on JVs have fallen into the "lump-of-control fallacy".

Single instance control vs permanent control

The concept of control developed in this thesis refers to a parent company's ability to assure that a JV meets its interests not only in the case of a single influence instance but also on a more permanent basis. In this view control is exercised when a parent company is successful in having the JV carry out a specific course of action at a given point in time through persuasion or coercion. The exercise of control ends once the activity is carried out or the decision is taken. But a parent company can also control specific areas, activities or
decisions without any action on the part of the parent. This may occur when one partner, or JV managers, will do something simply to avoid the other parent's reaction, or when a JVGM will act in a way consistent with a parent's interests because he has been successfully socialized to do so. An example of the latter point is given by the use of the appropriation requests in some parent companies. Over time, as a JVGM learns what kinds of projects a parent approves and rejects, he comes to a point where he does the screening himself. Dahl calls this particular type of control "trained control":

A common assumption is that learning comes about (whether exclusively or not) through reinforcement of particular actions by means of rewards. This view contends that habitual responses are those that have been satisfactorily reinforced in the past. On this assumption, then, trained control is a product of prior persuasion and inducements. Yet once B is trained, then, persuasion and inducement become unnecessary, except for occasional reinforcement or training. (22)

That control is exercised on a permanent basis is also reflected in the monitoring dimension of the concept. In the monitoring process a parent does not exercise any action to influence an activity or decision but simply verifies that the activity or decision yields results consistent with its interests.

The idea of permanence imbedded in the concept of control developed here can be compared with Parsons (23) and Blau's (24) view of power as a recurrent process.
...the concept of power is used to refer to an individual's or group's ability recurrently to impose his or its will on others, not to a single instance of influencing a decision of thesis, however important.

(25)

In summary, this section provides support for the view of control developed from the Mexican data. By relating the findings of this dissertation to studies on control and related concepts in organizational behavior and sociology, it has been shown that this researcher's observations of what control is, in spite of being different from previous treatments of parent control in JVs, do have some foundation.

4. Summary

The traditional view of control in international business focusses on three types of mechanisms: the contract, the locus of decision-making and staffing (for a summary of the traditional model refer to Figure VI-2). By looking at the evidence collected for this dissertation, it appears that control is more complex than is generally recognized. This researcher's interpretation of the Mexican evidence can be summarized in a new model (for a description refer to Figure VI-3). This new model adds:

- the role of the structural context within which decisions are made or activities performed. Managers in parent companies exercise control by shaping decisions or behaviors through organizational
systems such as the measurement system, the reward and punishment system, promotions, etc., and through organizational processes such as the planning process, the capital budgeting process, etc. 2- the role of the informal influence. This form of influence is difficult to measure because it is the result of interactions between people and personalities. However, the depth of the data has enabled this researcher to observe that control is also exercised through persuasion and bargaining and that trust and power play an important role.

The model of control proposed in the dissertation de-emphasizes the role of the contract as a control mechanism and emphasizes the role of organizational structure and informal interactions. The model does support previous findings that control is tied to legal and contractual considerations as well as to staffing and influence over decisions, but it expands on this traditional view of control by adding structural and informal dimensions. The importance of such dimensions is emphasized in the work of Bower (26) and Galbraith (27) and in the literature in organizational behavior. Bower, for instance, introduced the concept of organizational context and showed how managers influence strategic decisions by manipulating structural variables. Galbraith and authors in the organizational behavior field support the relevance of the wide diversity of formal and informal mechanisms identified in this study.

While the preceding chapter analyzed the empirical evidence on JV
success and this chapter the evidence on control, the next chapter describes and analyzes the relationship between the two.
Figure VI-2: Traditional model describing the relationship between control and performance
Figure VI-3: Revised model of parent control in joint ventures

**Structural Context**
- Organizational processes
  - Planning
  - Capital budgeting
  - Staff services
- Organizational systems
  - Reporting
  - Bonus
  - Promotion
  - Measurement

**Jv Contract**
- Ownership
- Veto right
- Special agreements
  - Licensing, management

**Staffing**
- Jv gm
- Other Jv personnel
  - Management
  - Technical

**Control Over Activities or Decisions**

**Informal Mechanisms**
- Face to face meetings
- Phone calls
- Visits to Jv

Jv Success

(2) Friedman and Kalmanoff, op. cit. Friedman and Beguin, op. cit.

(3) The indirect control is different from the induced in that in the latter mechanisms included are direct and indirect means of structuring the context within which a decision is made or an activity is carried out.


(13) Bacharach, P. and Lawler, Power and Politics in Organizations


(25) Blau, P., Ibid.


CHAPTER VII - RELATIONSHIP BETWEEN PARENT CONTROL AND JV SUCCESS.

The two preceding chapters were concerned with developing an understanding of how managers in parent companies measure JV success and how they exercise control over JVs.

This chapter presents a framework which is useful in understanding the relationship between parent control and JV success. The framework is derived from the observation that a JV's success or failure can be related to the parents' ability to achieve a fit between their criteria of success, the activities or decisions they control and the mechanisms they use to exercise control. Then, the chapter discusses how parent companies manage the control process. More specifically, it identifies factors which influence the decisions of what and how to control. Finally, the chapter deals with the issue of change in control. It identifies factors which lead parent companies to bring about changes to what or how they control. It also examines why some parent companies face difficulties in responding to pressures for change.
1. A Framework to Analyze the Relationship Between Parent Control and JV Success.

The framework presented in Figure VII-1 has been derived from an analysis of the control process in the ten Mexican JVs studied. It has proven to be a useful tool in describing and organizing the steps in the control process and in understanding their relationship to JV success.

The framework conveys the idea that for a JV to be successful, parent companies need to achieve a fit among their criteria of success, the activities or decisions they control and the mechanisms they use to exercise control. In order to achieve this fit, parent companies need a clear understanding of their criteria of JV success. Once developed, such an understanding provides a basis for identifying activities or decisions important to control in order to meet the desired criteria. In turn, success in controlling those activities or decisions depends upon the parent's ability to identify and use appropriate control mechanisms.

Conversely, parent companies do not achieve a fit between their criteria of success, what they control and how they control it in one (or a combination) of the following three sets of circumstances:

1) the parents do not have a clear understanding of how to measure JV success and therefore they find it difficult, if
Figure VI.1: Framework of the relationship between parent control and joint venture success

Local Parent

CRITERIA OF SUCCESS

STRATEGICALLY IMPORTANT ACTIVITIES (WHAT TO CONTROL)

CONTROL MECHANISMS (HOW TO CONTROL)

SUCCESS IN CONTROLLING

JV SUCCESS IN MEETING LOCAL PARENT'S CRITERIA

JV SUCCESS

MNC Parent

CRITERIA OF SUCCESS

STRATEGICALLY IMPORTANT ACTIVITIES (WHAT TO CONTROL)

CONTROL MECHANISMS (HOW TO CONTROL)

SUCCESS IN CONTROLLING

JV SUCCESS IN MEETING MNC PARENT'S CRITERIA
not impossible, to decide what to control,
(2) the parents know exactly what they want from the JV but fail
   to identify what they need to control to obtain it,
(3) the parents are not successful in controlling what they need
   to control because they use ineffective control mechanisms.

The notion of fit and the framework emerged from an analysis of the
control process in JVs, which had been turned around. By examining JVs
which had moved from the unsuccessful to the successful category, it
was possible to observe how changes in the parents control were
associated with changes in JV performance. The following examples give
evidence of the absence of fit in the "turnaround JVs" while they were
unsuccessful, and of the existence of fit in the same JVs after they
had become successful (for more detailed evidence refer to Chapter IV:
the case studies were written in support of the framework presented in
this section):

JV NIL: NIL has always been successful in the MNC parent's view
but not so in the Local parent's. The local parent was interested
in ROI and growth. However, it did not exercise any direct
control over the JV. It had appointed the JVCM but had no means
of evaluating the JV's performance other than by looking at the
quarterly financial reports and listening to the JVCM's
explanations for the poor results. With no understanding of the
JV's situation, the local parent was not in a position to decide
what to control.

NIL became successful after the local parent had decided on a new strategy for the JV, had replaced the JVGM, became directly involved in the JV’s planning process and put direct pressure on the JVGM through weekly meetings and phone calls. An important requirement for the JV’s success was the successful implementation of a strategy consistent with the local parent’s expectations of growth and ROI. The methods of control adopted by the local parent clearly enabled it to achieve its objectives.

**JV HAL:** During its first seven years of existence HAL was not successful in the MNC parent’s view. During those years the MNC parent was unable to achieve a fit between its expectations and its control practices. The parent did not have a clear understanding of how to measure JV success ("we were not too sure as to what HAL was supposed to do for us") and it did not have a structure at headquarters to control the JV. The JVGM, appointed by the MNC, reported to a marketing manager in charge of domestic operations who did not have the time nor the incentive to control the JV. As a result, the only control exercised by the MNC was in the area of technology. By not having a clear set of expectations and by not having someone at headquarters to monitor the JV, the MNC parent was not in a position to identify what, and how to control.
The JV became successful after the MNC parent decided that the JV should maximize its return on net assets (RONA) and a VP at headquarters, appointed to a newly created position, controlled the JV's capital expenditures and put pressure on the JVGM to worry about factors which affected the RONA. The JVGM was successful in generating better investment proposals which in turn enabled the JV to meet the parent's return on assets objectives.

JV RUF: The MNC parent in RUF was not satisfied with the JV's performance during its first seven years of existence. The MNC parent wanted profits and growth, and although the JV was the leader in its markets, it was marginally profitable. During those years the JV was managed by the local parent and the MNC's VP for International Operations did not have much time to devote to the JV because he had to supervise seventeen foreign operations. The only control mechanism used was the JV's board, and it did not play its role because the MNC parent was in no position to evaluate the JVGM's reports.

RUF became successful for the MNC parent after the Americans had replaced the JVGM and adopted a control strategy consistent with its newly stated goal of building a long-term profit base. Concern with the JV's future profitability led to control over planning, marketing research and management development. Control
was exercised by setting objectives for the JVGM in the areas above and by measuring his performance along those objectives.

In the few cases briefly presented above, unsuccessful JVs became successful following changes in what parent companies controlled or in how they exercised control. In the three cases, during the unsuccessful period, parent companies did not control activities or decisions important to their criteria of success, while they were successful in controlling such activities when the JVs became successful. As a result it was concluded that fit between the parents' criteria of success, the activities or decisions they control and the mechanisms used to exercise control is an important determinant of JV success.

This notion of fit seemed to stand up when looking at unsuccessful and successful JVs. The evidence from the unsuccessful JVs suggested that one or more of the three types of non-fit described earlier were in existence.

**JV SON:** With 25% of the JV's shares the local parent had no influence over SON's ownership structure. As a result it could not get a higher percentage of the JV's shares which was the only way to obtain a greater return through dividends. For the local parent the JV was unsuccessful because it did not yield a return which was commensurate with its contribution.
JV CT: The local parent was unsuccessful in controlling the capital expenditure decisions which were critical to enable the JV to meet the Mexicans' expectations. The local parent wanted the JV to buy land and hotels but could not convince the MNC parent to allocate funds to CT.

JV PAC: PAC became unsuccessful following the local parent's failure to influence a financing decision. The Mexican bank wanted the JV to finance a project through equity because it feared a devaluation of the Peso. After long negotiations with the MNC parent the project was financed through debt in US dollars. A few months latter the devaluation came, the debt servicing costs increased significantly and the ROI performance of the JV was significantly affected.

JV AP: AP was unsuccessful in the eyes of its local parent because it did not grow as fast as it could. The only way the JV could take advantage of the opportunities existing in the Mexican market was by becoming a Mexicanized company. However the MNC parent having a majority of the shares was not prepared to move to a minority position.

In the unsuccessful JVs, parent companies were not successful in controlling activities or decisions which could make the JVs meet their expectations. On the other hand, in successful JVs, parent companies
achieved a fit between their criteria of success, what they controlled and how they controlled it. The following examples illustrate how this fit was achieved in the successful JVs.

**JV QA:** In QA, a JV involved in the hotel management business, the MNC parent is interested in growth and profits. Growth comes from the new contracts generated by the JVGM. The MNC parent has been able to make sure that the JVGM did find sufficient contracts through its participation in the board meetings and through feedback given on the JV’s plans.

The JV’s profitability depends upon the number of contracts signed as well as the profits of the hotels managed by the JV, since the royalty payment is calculated as a percentage of the hotel’s gross income. The MNC parent has been able to control activities which have an impact on the JV’s bottom line. It controls the marketing and advertising for the hotels through the appointment of the JV’s marketing manager and through an advertising contract. The MNC parent controls the reservations for the hotels’ rooms through its centralized reservation system. It controls the management of the hotels under contract through a technical service agreement, through training programs for hotel managers and personnel and through the JVGM.

As a result the MNC parent has been successful in identifying and using control mechanisms which were useful in controlling the activities important to the achievement of its criteria of
success.

**JV IRSA:** The MNC parent's criteria of success in the JV IRSA changed over time from an evaluation of the past year's growth in sales and earnings to a concern for the JV's ability to generate future earnings. Concern with the JV's future earnings led the MNC parent to control management development related activities through training programs in auditing and marketing research. It also led the MNC to control the formulation of the JV's strategy through direct participation in the planning process and the implementation of the JV's strategy through feedback on periodic strategic reports.

In summary, this section has presented a framework useful to understand the relationship between parent control and JV success. The framework has been empirically generated and as a result, it is supported by the evidence presented in the case studies. The framework suggests that a JV's success depends upon the parent companies' ability to achieve a fit between their criteria of success, the activities or decisions they control in the JV, and the mechanisms they use to exercise control.


A fundamental implication of the argument made in the preceding section is that managers in parent companies can improve the chances of JV
success by improving the fit between their criteria of success, the activities or decision they control and the mechanisms they use to exercise control. As a result it is useful to understand how managers achieve this fit. The present section attempts to develop such an understanding by identifying factors which influence the decisions of what and how to control. The section concludes with an examination of how managers in parent companies monitor the effectiveness of the control process.

2.1. Deciding what to control.

An analysis of the case studies presented in this dissertation shows that there is a relationship between what parent companies decide to control (or not to control) and JV success. The experience of JVs such as NIL, RUF or SON shows that being successful in controlling a JV is not a guarantee to assure JV success. In those three cases the turnaround took place only after a parent had changed the activities or decisions it controlled, therefore suggesting that parent companies need to identify which areas they should control to make a JV successful.

Identifying such areas is not a straightforward process. Typically managers in parent companies select the activities or decisions they want to control in an incremental fashion, through a trial and error process, rather than in a structured way. The director for
international operations in RUF’s MNC parent described this process as follows:

- The principles of good business are different from one country to the other. It is difficult to change from one mentality to another and from one way of working to another. Finding out in which areas I should put pressure on the JVGM takes time. But now I know better what to look at.

In only three JVs – PAC, TOP and QA – did the two parents come to an agreement specifying which areas would be controlled by whom and which areas would require mutual approval, before they signed the JV contract. In other JVs there was an explicit (formalized in a contract for technology, management or marketing) or implicit understanding that certain areas such as technology, quality control, government relations or labour relations would be under the responsibility of one or the other partner. But in all cases the parents bring changes to the areas they controlled as they learned over time which areas were most relevant and which were least relevant for them.

This researcher has identified four factors which influence the managers’ selection of areas they want to control:

- The parents’ criteria of success.

- The JV’s dependence on the parents’ knowledge, skills or resources.
- Interorganizational politics.
- The parents' attitude towards control.

The remainder of this section is devoted to explaining how these four factors (presented in Figure VII-2) influence managers in parent companies when they decide what to control.
Figure VII-2: Factors influencing the decision of what to control in JVs

PARENTS' CRITERIA OF SUCCESS

JV KEY SUCCESS ACTIVITIES OR DECISIONS

JV'S DEPENDENCE ON TRANSFERS FROM PARENTS (Knowledge, Skills, Resources)

WHAT TO CONTROL?

PARENT POTENTIAL CONTRIBUTIONS TO JV

INTERORGANIZATIONAL POLITICS
- What is acceptable to partner
- Bargaining for areas of influence

ATTITUDE TOWARDS CONTROL
- Company policies and norms
- Personality of manager exercising control
Parents' criteria of success.

The observation that in successful JVs parent companies control areas consistent with their criteria of success whereas in unsuccessful JVs they don't, led to the framework proposed in section 1. Implicitly or explicitly, as managers discover what they need to control to make a JV successful, they tend to choose areas which are consistent with their criteria of success. Evidence for the need to control activities or decisions consistent with one's criteria of success has been found in three sets of circumstances:

1- When a parent company has been able to turn a JV around by keeping the same criteria of success but by adjusting its choice of areas to control to those criteria. This was the case of the local parent in NIL which turned the JV around after it realized that it was not controlling the "right" areas. To make NIL a growing and profitable venture the parent needed to control the JV's strategy and not just the operating results as it had done until then.

2- When parent companies change their criteria of success, this change is accompanied by a change in the activities or decisions they control. For instance when the MNC parent in RUF decided that to be successful the JV had to build a long-term profit base, it focused its control on planning,
market research, management development and other activities important to the JV's long-term profitability.

3- In successful JVs the areas that parent companies control are consistent with their criteria of success.

Thus, the first step in deciding what to control is the identification of the parents' criteria of success. If the two parents see the JV as a long-term proposition, it is important that both be satisfied and perceive to win something. It does not mean that the two parents need the same set of criteria. The criteria can be different as long as they are not incompatible. The only JV in the sample whose parents had incompatible objectives was terminated after two years.

In most JVs the two parents arrive at an implicit consensus whereby they develop their own criteria of success and recognize and accept their partner's. In only three JVs did the two parents come to an explicit consensus (PAC, TOP, IRSA). The advantages of going through a formal process of joint formulation of the JV's objectives is that it forces each parent to come to grips with its own expectations; and to understand its partner's. As a result it reduces the likelihood of surprises, and by agreeing on goals it may be easier to agree on the means of achieving those goals. On the other hand, parent companies need to realize that agreeing on a common set of objectives for the JV is a commitment on their part to support those objectives. The MNC
parent in PAC found how difficult it can be to try to modify those objectives once they have been established to make them fit new expectations.

Once the criteria of success are established, parent companies are in a position to determine what activities and decisions are likely to affect the JV's ability to meet those criteria. Table VII-1 illustrates the idea that implicitly or explicitly parent companies have a global set of criteria of success made up of MNC parent specific criteria, local parent specific criteria and common criteria of success. From this global set of criteria a set of key activities or decisions can be identified.
Table VII-1: Parents overall criteria of success and key success areas.

- MNC specific
- Common criteria of success
- Local parent specific

Determine key activities (Ai) or decisions (Dj) to meet those criteria . . . Ai . . . , Dj . . .

Further, by identifying its own criteria and the activities or decisions important to meeting them, a parent company is in a position to decide which activities and decisions it needs to control and which ones it is indifferent about. This is a first step towards the answer to the question "who controls what?".

JV's dependence on the parents' knowledge, skills and resources.

The second step in answering the question "who controls what?" is by identifying in which areas each parent can contribute to the success of the JV. This observation is consistent with Killing's conclusion that if one parent does not contribute skills necessary to the JV, the other parent should manage the JV(1).

Identifying in which areas the JV can benefit from its parents' support
is an important task for managers because a distinctive advantage of JV is its ability to draw from the resources of two parents. The evidence from the Mexican data suggests that parent companies can predict fairly well that the JV is going to need help in certain areas where they have a distinctive competence (technology, quality control, distribution; promotion) while it is more difficult to do so in other areas. For instance, the local partner in QA did not realize that it could help the JV in setting a formal planning process until the JVGM started to alter significantly the projects that the JV was involved in. It became obvious that the JVGM was trying to do too much too fast. The local partner decided to help the JV plan its growth by providing management and computer support. In the same way, the MNC parent in IRS A decided to provide free training in marketing research to JV managers when it realized their weakness in this area. The MNC parent had found that new project proposals were lacking support in marketing research. One way managers in parent companies can avoid such situations is by identifying the activities or decisions important to the success of the JV and by deciding in which ones they can transfer their own strengths, at what cost and with what payoffs.

Interorganizational politics.

Another important factor in explaining how managers in parent companies decide what to control is politics. Areas of influence can be gained through bargaining, and the JV's dependence on one parent's skills or
knowledge for its success represents a key bargaining argument.

What a parent decides to control (or not to control) is also a function of what is acceptable to its partner. There is a tendency, for instance, among Mexican parents to believe that the foreign partners should not be involved in "Mexican decisions". As a result the MNC parents in JVs such as IRSA, TOP or HAL do not become involved in areas dealing with labour or government decisions, in negotiating with local banks or in developing relationships with local distributors, for example.

Finally, a parent company's bargaining strategy can be enhanced by a good knowledge and understanding of which areas are important and which are not important to promote its criteria of success. A parent can consciously yield on an unimportant issue in order to gain leverage when bargaining on a more important issue.

Attitude towards control.

This researcher found that company norms and policies in the area of control, as well as the personal attitudes and beliefs of the manager(s) exercising control, influenced the choice of areas to control.

Some parent companies when entering a JV expect to control a specific
area or type of decision, such as marketing, quality control, finance or technology. For example the president for the MNC parent's Mexican operations in PAC stated:

When we go into a joint venture we like to control the day to day management as well as the financial side.

In most companies studied there were some sort of norms established regarding control over specific areas. However, in a number of companies there were no such norms and each foreign venture was managed differently from headquarters. In RUP's MNC parent, the director for International Operations specifically attempted to tailor the control practices to the requirements of each foreign investment.

On several occasions this researcher found that when managers described their control practices, those practices often reflected the manager's background (finance or production for example) and biases. In other words managers tend to focus their control practices on areas they are familiar with.

As a conclusion, the data from this study shows that parent companies of successful JVs tend to focus their control efforts on activities related to their own criteria of success. The exercise of control requires significant resources to be effective. An efficient management of those resources demands that they be focussed on areas critical to the success of the JV. The factors identified in this
section represent a step towards a better understanding of how parent companies can decide which activities or decisions they need to control.

Table VII-2 illustrates the idea that if all activities and decisions that the two parents could possibly control in a JV were conceptualized as a rectangle, those activities and decisions could be broken down into four categories:

- those that the MNC parent wants to control

- those that the local parent wants to control

- those that both parents want to control

- those for which both parents are indifferent.
Table VII-2: Conceptual partitioning of parent control in a JV.

<table>
<thead>
<tr>
<th>Zone of indifference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>MNC Control</td>
</tr>
<tr>
<td>LP Control</td>
</tr>
<tr>
<td>Shared Control</td>
</tr>
</tbody>
</table>

2.2: Deciding how to control.

As the evidence shows, managers can exercise control by a wide diversity of means. Also, which mechanisms managers decide to use have an impact on the effectiveness of a parent's control attempt. Yet, identifying and using appropriate control mechanisms in a difficult task, as the MNC parent's experience with the JV HAL suggests. It took the MNC parent six years to develop mechanisms to control the JV's growth pattern. Finally, the parent succeeded in controlling the areas that HAL would grow into, and the kinds of projects that the JV would
undertake, by limiting the JVGM's authority over capital expenditures to sustaining investments, by putting direct pressure on the JVGM to generate new projects, and by providing feedback and approving proposals for new projects.

Since the selection of control mechanisms has an impact on a parent's ability to exercise control, it is important to understand how managers choose appropriate mechanisms. As a result, the objective of this section is to discuss some factors which influence managers' choice of control mechanisms.

In order to exercise control over decisions or activities related to a JV, managers in parent companies can use a wide diversity of strategies including:

- command: by making a decision and imposing it on the JV management;
- staffing: by appointing to a JV someone whose allegiance and competence are known;
- structuring the environment in which decisions are made or tasks performed: by manipulating structural devices such as the reward-punishment system, policies and procedures, the measurement system, or by limiting the JV's managers discretion (approval of business plans, budgets and projects, feedback on reports).
bargaining with JV managers or with managers from the partner's organization.

How do managers from parent companies choose among the above strategies? How do they decide which specific mechanisms to use? This researcher has identified the following three types of influences on the decision of how to control (refer to Figure VII-3 for a more detailed list):

- Characteristics of the activity or decision to control
- Staffing of the JV
- Political circumstances of the control attempt

It is important to recognize from the outset that the three types of factors are interdependent. It is their interaction which guides the selection of appropriate control strategies and mechanisms. The remainder of this section is devoted to a discussion of the three factors and their influence on the selection of control strategies and mechanisms.
Figure VII-3: Factors influencing the selection of control mechanisms

- Vigilance
- Sensitivity
- Area related attributes
- Bargaining power
- Authority
- Credibility
- Parent's bargaining position
- Likelihood resistance
- Parent's attitudes and norms
- Control of circumstances

To control activity on decision

Characteristics of VCM

Permanent/Temporary
- Other VCM presented
- Culture/fair economy
- Track record
- Origin

Supporting
The first factor deals with the characteristics of the activity or decision to control. The choice of specific control mechanisms and strategies is influenced by the nature of the activity or decision to control: Is it routine or non-routine? How much uncertainty is involved? How important is the activity or decision to the parent's interests? How dependent is the JV on the parent's expertise or resources in the area concerned?

The second factor to influence managers in parent companies in deciding how to exercise control is staffing. As the evidence shows, in cases where a parent appoints the JVGM, control tends to be exercised through command, the manipulation of the JVGM's decision-making environment (bonus, reporting) or through direct contact (phone calls, meetings). On the other hand, in cases where the JVGM comes from the partner's organization, control is generally exercised through negative control (approval of specific decisions or reports) and bargaining.

In either case, there can be slight differences in implementation in the above strategies. For instance, the JVs NIL, SON and RUF were turned around by one partner who had appointed a new JVGM. However, in NIL the local parent also became directly involved in the JV's affairs and monitored closely the progress of the JVGM until he had built a track record in his new position. On the other hand, in SON and RUF the parents were less involved because they had appointed the JVGM on the basis of his track record. In SON, control was exercised through
the reporting system and through an active role at the board level. As
to RUF, control was exercised through the manipulation of the JVGM's
measurement and reward systems. The JVGM in RUF was more independent
than the other two. There was an implicit limit as to how far the MNC
parent could be involved in the JV's affairs because the JVGM had a
strong drive for autonomy, and, at the same time, the MNC parent needed
this manager to turn the JV around.

In all three cases the parent was successful in controlling the JV.
However, the control strategy followed in each case was influenced by
staffing considerations.

A third major constraint in deciding how to exercise control is
politics. Because it involves two parents with different personalities
and expectations, a JV is different from a wholly-owned subsidiary. In
a wholly-owned subsidiary a parent is in a position to enforce
implementation of its decisions. The parent decides on the rules of
the game. By contrast, in a JV a parent needs to take into
consideration the expectations of its partner. As a result, bargaining
and compromise are the rule in JVs. Unless a parent has explicit
authority (and even then), it simply cannot impose on its partner its
views regarding what the JV should do and how it should do it. In a JV
the exercise of control becomes a subtle and indirect process whereby a
parentlooks for ways of influencing people's behaviors and decisions
through inducement, persuasion and negotiations, rather than through
command. The subtleties of the control process are illustrated in the following account from the JV IRSA:

Following their decision to control the JV’s strategy, the MNC parent managers faced the problem of how to do it without jeopardizing their relationship with the Mexicans. Both the JVGM and the local partner were strongly opposed to having the Americans telling them how to run the business. As a result, the MNC parent asked in participate to the JV’s planning process and convinced its partner and the JVGM to require the SBU managers to prepare reports on their present and future strategy.

In turn those strategy papers were used by the MNC parent to provide feedback and influence the direction of the SBUs. On one occasion they were also used to convince the local partner to support the divestment of a particular business that the JVGM wanted to keep because he had an emotional attachment to it. The local parent had more credibility and power in the eyes of the JVGM, and the business was finally divested.

The experience of IRSA’s MNC parent’s approach to controlling strategic decisions shows the importance of politics in choosing and using control mechanisms. The MNC parent successfully influenced strategic decisions by developing indirect control mechanisms and by using them in a subtle way. The whole process was incremental in nature; it
involved selling the idea of the strategy papers, building the local parent's awareness of problem areas; creating commitment, building a coalition and negotiating with the JVGM.

2.3. Monitoring the control process.

A final difference between successful and unsuccessful management of the control process is in the way parent companies monitor the process itself and its outcomes.

On the one hand, parent companies unsuccessful in exercising control tend to rely on formal mechanisms such as quarterly financial information or the board meetings to monitor a JV's progress. On the other hand, the successful ones tend to use a much wider array of formal and informal mechanisms. Among the formal mechanisms are financial reports, reports on operating results, progress reports on plans or projects, board meetings, periodic meetings with JVGM. Among the more informal mechanisms are: phone calls, visits to JV, development of a personal relationship with the JVGM or with managers from the partner's organization.

Maintaining open channels of communications with the JV and the partner helps managers in parent companies in deciding when to reinforce specific decisions or behaviors and when to adjust their control practices if the results do not conform with their expectations. In
the latter case managers in the parent companies are able to have a good understanding of the problems arising in the JV and are in a position to decide whether they could or should do something about them. In four successful parent companies there was a strong concern with developing what one manager calls "the principle of transparent communications". According to this principle a JVGM is encouraged to talk about his problems: "if he does not he is in trouble!".

In sum monitoring the control process involves identifying the types of information necessary to evaluate how effective the control exercised is and also what channels can be used to convey this information. The experience of successful JVs suggests that parents tend to rely on a variety of sources to obtain this information and that oral forms of communications play an important part among those sources.

The accuracy of the information obtained through informal channels and discussions with managers from the JV or the local partner is a function of the degree of trust between individuals. Recognizing this, managers in successful parent companies spend time and money to maintain and develop a trust relationship with the JVGM or with their partners. For example, a VP in the MNC parent for AP spends 50% of his time in Mexico in activities such as fishing or visiting historical sites with Mexican members of the board, to maintain a good relationship. For those managers the formal reports are not sufficient to form a clear judgment on the problems created by JVs.
3. Triggering Mechanisms to Changes in Parent Control Patterns.

As shown in Table VII-3, both parents have modified their control pattern - i.e., what they control or how they control - in six of the ten JVs studied, and in three JVs one of the two parents did so. The only JV in the sample in which neither of the parents has modified its control pattern, TOP, had been in existence for only two years.

Table VII-3: Changes in parent control patterns in the sample JVs. (X indicates that the parent has changed its control pattern over time).

<table>
<thead>
<tr>
<th>JV</th>
<th>Local Parent</th>
<th>MNC Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIL</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>RUF</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>HAL</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>SON</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>IRSA</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>TOP</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>PAC</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>QA</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>CT</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>AP</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Thus, parent companies do alter their control patterns over time. This section presents factors which make parent companies alter the activities (or decisions) they control, or the way they exercise control.
3.1. Presentation of the triggering mechanisms

Table VII-4 summarizes the various reasons why the parent companies studied have brought changes to their control patterns over their JVs.

At the outset, it is important to recognize that some of these reasons may be related. For instance, in the case of RUF, the change in the control exercised by the MNC parent took place after a new management team came to power at headquarters. The new management was not satisfied with the results of RUF and requested an evaluation of the JV. The study prepared by an independent consultant led to the formulation of a new set of criteria of success which in turn led to the establishment of a new control pattern.

JV results different from expectations

A JV's inability to meet its parent's criteria of success has induced six of the parent companies studied to change what they control or how they control. In the JVs HAL, PAC and SON (local parent), the parent attempted to bring the JV's results in line with its own criteria of success by changing the activities or decisions it wanted to control, or by changing the way it controlled specific activities or decisions.

In the other JVs, RUF, NIL and SON (MNC parent), the parents changed their control patterns after they had redefined their criteria of success. In those three cases the parent had an arm's length relationship with the JV and lacked a clear understanding of how to
measure JV success. After five to six years of poor or declining financial performance, managers from the parent companies decided to "give more attention" to the JV. The first step was to define a set of criteria of success and the second to tailor their control pattern to those criteria.
Table VII-4: Triggering mechanisms to changes in parent control patterns

<table>
<thead>
<tr>
<th>TRIGGERING MECHANISMS</th>
<th>JV results different from expectations</th>
<th>JV results become more important to parent</th>
<th>Top management change at headquarters</th>
<th>Change in JV ownership structure</th>
<th>Change in partner's control over JV</th>
<th>Parent's results, or problems with core business</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOCAL PARENT</td>
<td>NIL, SON, PAC</td>
<td>IRSA, QA</td>
<td>HAL</td>
<td>AP, SON</td>
<td>HAL, IRSA</td>
<td>TOP</td>
</tr>
<tr>
<td>MNC PARENT</td>
<td>HAL, SON, RUF</td>
<td>NIL, IRSA</td>
<td>IRSA, RUF, CT, PAC, AP, HAL</td>
<td>AP, SON</td>
<td>AP</td>
<td>PAC, CT, IRSA</td>
</tr>
</tbody>
</table>
JV results become more important to a parent.

Four parent companies have changed their control pattern as the impact of the JV became more significant to their overall strategy.

In the four cases the parents became more concerned with long-range planning and financial performance.

Top management change at headquarters.

In four JVs, IRSA, RUF, CT and HAL (local parent), changes in a parent's control pattern were initiated by a new management team assuming power. In the cases of CT and IRSA, the new managers in place brought new ideas and attitudes with regard to foreign operations and the way they should be managed. In turn these attitudes influenced changes in the parents' control patterns. For instance, the MNC parent's new president of CT had no experience in international operations, and his attitude was to control all aspects of the JV from Canada. As a result, the JVGM lost completely his autonomy. The feeling among IRSA's MNC parent's new top managers was "maybe we should pay more attention to the JV", and resulting in the establishment of control mechanisms which did not interfere with the Mexican managers.

In the cases of RUF and HAL, the change in parent control followed a learning phase during which the new managers tried to get a feel for
the JV's operations. In RUF the learning phase involved an in-depth evaluation of the JV by an outside consultant, while in HAL it involved a series of meetings between HAL's local parent's new management and the JVGM.

In the cases of PAC and AP, the control approach changed at one level in the reporting hierarchy as a former JVGM became directly involved in the supervision of the JV.

Finally in HAL, a change in the MNC parent's control took place after a VP in charge of the parent's international operations was appointed to a newly created position.

**Change in JV ownership**

In agreeing to Mexicanize AP, the MNC parent became the minority partner in the JV. As a result the MNC parent could no longer impose decisions that the Mexicans would not agree with, and control had to be exercised through persuasion. On the other hand, the Mexican parent was in a better bargaining position and put more pressure on the MNC parent to allow the JV to grow.

In SON the change in ownership took place at the MNC parent level. The original MNC parent had been bought by another company. As the new parent became more involved in the JV's affairs, the attitudes towards
control changed from a "colonial attitude" to a more balanced attitude. Also, the change in ownership induced the local parent to have inputs in specific areas of the JV management, because it was involved in another JV with the new parent, it felt it had a responsibility to help the JV.

Change in partner's control over JV.

As AP became Mexicanized, the Mexican parent became more arrogant and the MNC parent had to change its control pattern to deal with this new situation.

In the cases of HAL and IRSA, the local parents, when they realized that the MNC parents were taking control of specific activities, responded by doing the same thing in other activities.

Parents' results or problems with core businesses.

The MNC parent in IRSA changed its control pattern following the failure of a JV it was involved with in Spain as a result of "not paying enough attention". The MNC top management did not want the same thing to happen with IRSA.

The experience of PAC, TOP, CT and IRSA, shows that what a parent decides to control can be influenced by problems faced at headquarters. For instance, the MNC parent in IRSA became interested in controlling
the JV's dividend payout after it issued shares in the US. The parents in TOP, PAC and CT wanted to control the JV's expansion decisions and/or how to finance them when they faced cash difficulties in their other businesses.

3.2. Analysis and implications.

Managers agree that control is one of the most important issues in JV management. However, the evidence provided by the data in this study shows that managers find it difficult to define their control objectives and practices. It is rather significant that in five of the ten JVs studied long periods of time had elapsed before managers in parent companies started doing something about their control problems: three years in NIL, five in IRSA, RUF and HAL, six in SON.

In this study, the researcher has identified three major factors which explain why some parent companies face difficulties in responding to the signals sent by the triggering mechanisms presented above:

1. inadequate structural arrangements at headquarters to manage the JV,
2. lack of parent commitment to the JV,
3. lack of "good" data on the JV as a result of a poor information system.

The first factor, inadequate structural arrangements at headquarters to
manage the JV, refers to the absence of a formal position at headquarters whose primary responsibility lies with the JV (and other foreign operations). This was the case of HAL and TOP where the reporting relationship was to a marketing manager and SON where the reporting relationship was to a financial manager. In these three cases the managers had little or no time to devote to the JV because their priority was with the parent's domestic operations. It is only after years of poor JV performance that HAL's MNC parent created a new position to manage the company's international operations, including HAL, and that SON's MNC parent's top management became involved in the JV's management by appointing a new JVGM. In the case of TOP no serious problem had been caused by the lack of headquarter's involvement in the JV affairs because a temporary structure had been put in place: a manager from headquarters had been sent for a three-year period to Mexico to monitor the JV's progress.

Another problem related to an inadequate organization at headquarters' level is the one faced by RUF's MNC parent's director for international operations who was in charge of seventeen foreign operations. In this case a structure was in place but not enough resources were allocated for its smooth operation.

The second factor which explains why some parent companies face difficulties in responding to the signals sent by the triggering mechanisms is the lack of parent commitment to the JV. This is the
case of the MNC parent in SON and in RUF and of the local parent in NIL. For these three parent companies the JV was, for a period of time, a low priority item on the corporate agenda. As a result, they made no attempt whatsoever to intervene in spite of the JV’s deteriorating performance. The three JVs were turned around only after the parent companies had decided to pay a little more attention to the JVs and to do something about their poor results.

The lack of parent commitment led to the collapse of the JV CT after two and a half years in existence. On the one hand, the MNC parent was more concerned with its domestic operations and would not provide the capital needed by the JV’s expansion plans. On the other hand, the local parent did not trust its partner and was not prepared to further invest in the JV.

In the case of IRSA the lack of parent commitment led to a situation where neither parent had a clear understanding of what the JV was supposed to do for them. Also, their lack of commitment prevented them from reading signals that the JV was going in directions that they did not approve of. In other words, both parents had lost control of the JV until they decided to pay more attention to it.

A third factor which explains why there is a lag between the time problems arise in a JV and the time parent companies try to deal with those problems is an inefficient information system. In the JVs IRSA,
SON, RUF and NIL the lack of good data from the JV made it difficult for the parent companies to understand what was really going on in the JV. In turn, the inefficient information system between the JVs and the parent’s could be explained by the lack of parent commitment. Headquarters simply did not allocate the management resources and time to develop and monitor such an information system. As a result, in RUF the JV’s difficulties were explained by the fact that the JV was starting up (during its first five years) and by the devaluation of the Mexican peso after 1975, when a closer look at the JV’s books and at the JV’s transactions such as purchases of component parts revealed that the "real" problem was that the JVGM was a crook. As well, in NIL the JV’s difficulties were explained by a slow-down in demand for candies and severe competition, when the real problem proved to be poor management.

In the JVs HAL and TOP, which did not have a specific structure at headquarters to handle the JV’s problems, the information reaching headquarters was very limited. For the MNC parent in TOP the problem was temporarily solved by sending a manager from headquarters to monitor the JV during a three-year period. In HAL, the MNC parent appointed a senior manager to a new position at headquarters who developed an information system.

The importance of good information and measurement systems is reinforced by the fact that for six parent companies it is a
discrepancy between the JV's results and their own expectations, revealed by these systems, which led to a change in their control objectives and practices. In the present context, a good information system is one which enables a parent company to evaluate how well its criteria of success are met (or are likely to be met).

In sum, parent companies respond to the triggering mechanisms in two ways. First, directly, by trying to adjust the control mechanisms to their criteria of success when the criteria are not met. Second, indirectly by formulating a new set of criteria of success altogether and then adjusting their control pattern to the new criteria. A major difference in the way parent companies respond to those triggering mechanisms is the lag between stimulus and response. In unsuccessful JVs, parent companies were slow in responding to pressures for change because of one or a combination of the following reasons: lack of parent commitment, inappropriate organizational structure at headquarters to monitor the JV, inefficient information system between the parent and the JV.

Since JV success is related to parent control, managers in parent companies need to realize that successful control starts with commitment. The experience of the unsuccessful JVs in the sample shows that it is difficult to decide what to control and how to control a JV when a parent does not know how well the JV is doing in the first place, or when a parent is not prepared to allocate resources in order
to develop an understanding of what is going on at the JV level (for example to investigate the reasons for poor results).

One sign of a parent's commitment to a JV is the position and level of the manager who is given responsibility for the JV in the parent's organization. Parent companies which had given this responsibility to managers whose prime concerns were in the parent's domestic operations, or who did not have the time or management resources required by this task, had the greatest difficulties in responding to the triggering mechanisms. Besides deciding who is going to be responsible for the JV, a parent company's top management needs to decide whether the chosen manager's reward and punishment and measurement systems provide sufficient incentive to pay attention to the JV.

Finally, a parent's ability to identify circumstances which demand a change in control is influenced by the quality, amount and frequency of information received. A comparison of successful and unsuccessful JVs in the sample shows that parent companies need to develop a measurement system which enables them to evaluate how well their own criteria of success are met. In successful JVs the measurement system relies both on formal and informal channels. Among the formal channels used are financial, operating and progress reports as well as formal meetings with the JVCM or representatives of the local parent (e.g. board meetings). Among the informal channels are phone calls and visits to the JV. Monitoring a constant contact through the informal channels is
a way to develop trust and credibility with JV personnel or the local parent. As a result it enables a parent to obtain better information and above all to avoid surprises. Thus a parent company's management is in a better position to decide whether to intervene or not and how to intervene.

4. Summary

This chapter has presented a framework which is useful in understanding the relationship between parent control and JV success. The framework suggests that a difference between successful and unsuccessful JVs lies in the parents' ability to achieve a fit between their criteria of success, the activities or decisions they control and the mechanisms they use to exercise control.

Then the chapter has presented factors which influence the decisions of what and how to control. Among those factors politics plays an important role therefore suggesting that control in JVs is a political process.

Finally, the chapter has identified some of the triggering mechanisms which lead managers to modify the way they manage the control process. The most frequently observed in the firms studied are:

- JV results different from expectations
- JV results become more important to a parent
- Top management changes at headquarters
- JV ownership structure changes
- Partner's control changes
- Problems arise with a parent's domestic business.

The next chapter presents the implications of these findings for managers and researchers.
FOOTNOTES

CHAPTER VIII - CONCLUSIONS AND IMPLICATIONS

This final chapter emphasizes the major contributions of this dissertation. It begins with an outline of the major findings. Next, it draws the implications of those findings for managers and for researchers. Finally, it concludes by suggesting areas for future research.

1. Summary of the Major Findings.

An important aspect of JVs is that they have two parents. The advantage is that they can benefit from the resources and skills of the two parents, but the disadvantage is that they need to accommodate two sets of expectations. This duality proved particularly important in understanding the results of the dissertation.

The analysis of the Mexican data has shown that parent control is an important determinant of JV success. By no means is it the only one. Other factors can influence the JV's performance no matter how well the parents manage the control process. For instance, the JV TEL was terminated a year and a half after the interviews because the local parent, facing serious liquidity problems was re-evaluating its investments and decided to pull out of TEL after the JV lost in the bidding for a critical government contract. In another instance, the
JV INSA's growth and profit performance was affected by the 1982 devaluation of the Peso in two ways:

1. it significantly raised the cost of the debt the JV had in US dollars,

2. it led to a collapse of several of its markets.

It is important to recognize that there are economic or competitive factors outside the control of managers which may have a significant impact on the JV's success. However, for the purpose of this dissertation, the emphasis has been placed on the analysis of the association between parent control and JV success.

The study has shown that what managers in parent companies control, or the techniques they use to control, has an influence on the degree of JV success. A difference between the successful and unsuccessful JVs in the sample is that in successful JVs, managers from the parent companies achieved a fit between their criteria of success, the activities or decisions they controlled, and the mechanisms they used to exercise control, whereas in unsuccessful JVs such fit was not achieved. The notion of fit emerged from the analysis of the JVs which had been turned around. The evidence from those JVs showed that, changes in parent control (activities or decisions controlled or mechanisms used to control) were associated with changes in JV performance (from unsuccessful to successful).
JV success.

To develop the argument above a criterion of joint venture success had to be devised. The Mexican data clearly showed that, JV success is a multi-dimensional concept. Managers use a wide variety of quantitative and qualitative criteria to measure JV success. Further, different parents use different criteria. This study provides evidence that there are differences in priorities, in time orientation or in expected level of performance.

Second, JV success means different things for JVGMs than for managers in parent companies. JVGMs are primarily concerned with avoiding or solving conflicts between the parents and secondly with meeting their parents' expectations. Managers in parent companies, on the other hand, are concerned with the JV's ability to meet their own expectations first and with maintaining a good relationship with their partner second.

Third, the criteria of success change over time. What is an appropriate measure at one point in time may not be appropriate at another point. For instance, some parents concerned with qualitative criteria such as learning how to run JVs, establishing their brand name in Mexico or using the JV as a test before expanding in the Mexican market or other Latin American countries, became concerned with profits.
and operating results as their investment grew larger. Other factors which were found to lead to changes in the parents' criteria of success were: changes in a parent's market conditions, changes in a parent's top management or changes in the ownership structure of the JV.

Surprisingly, in seven of the ten ventures there was no attempt by managers from the parent companies to clarify each other's expectations, and to assign a common set of objectives to a JV.

All of these observations led to the conclusion that the appropriate measure of JV success is the extent to which the joint venture met the expectations or criteria of success of its parents.

This study shows how difficult it is to determine a single measure which meaningfully measures joint venture success. As a result, the Mexican JVs were classified into four categories of success on the basis of how well they met the criteria of success of each of their parents. JVs were placed on the JV success matrix below based on the managers' evaluation at the time of the interviews:
Parent control.

From the analysis of the data, the researcher defined control as a process through which managers in parent companies ensure that the way a JV is managed conforms to their interests. An important finding of this research is that control is a process and that the way this process is managed has an influence on JV success. As indicated earlier, successful management of the control process by a parent company involves achieving a fit between the parent's criteria of success, the activities or decisions it controls and the mechanisms used to exercise control. The insights on control gained from the Mexican data were instrumental in arriving at this finding.

First, this researcher argued that a more useful understanding of parent control is gained by addressing the issues of what and how do parent companies control their JVs rather than by trying to measure how much control they have as earlier studies on JVs did. Measuring the amount of parent control proved a tough proposition because it was found that:
control is context specific. Control is not a single lump. A parent does not have more or less control in general, but it controls (or does not control) specific activities or decisions.

- two parents could control a JV when they controlled different sets of activities or decisions.
- control is a multi-dimensional concept and there is no rule to combine the various dimensions into a single index which measures differences in magnitude.

Second, this researcher found that the exercise of parent control is a far more complex process than is generally recognized in the literature. The richness of the data enabled the identification of a wide range of mechanisms used by managers in parent companies to control their JVs. Managers did use the mechanisms generally identified in prior studies such as authority over decisions, contractual arrangements and staffing. But they also used more subtle mechanisms through which they influenced decisions and/or activities in the JV. Among those mechanisms were:

- organizational processes: planning, capital budgeting,
- organizational systems: reporting, bonus, reward and punishment, promotion, JV's policies and procedures, provision of staff services or training programs.
- informal mechanisms: visits to JV, meetings with JV managers, phone calls.

Control is not simply the result of a de facto or contractual allocation of authority over specific decisions or activities to one parent. More importantly, control is also exercised by shaping the context in which decisions are made, or activities carried out, through formal and informal systems or processes. Control involves influence over people, and thus an important aspect in the exercise of control is the interaction between people. In the Mexican JVs studied control was often determined by the outcome of bargaining since in most cases strategic decisions needed the approval of both parents, or by direct communications between managers. For instance, some managers successfully exercised control by putting direct pressure on the JVGM through face to face meetings or phone calls. Other managers were able to persuade their partner to go along with a specific decision when there was a good relationship between the parties involved. Trust, respectability and credibility facilitated the exercise of influence through persuasion.

The third important finding which improves our understanding of the concept of control is the identification of two distinct forms of control: positive control and negative control. Managers had control when they were in a position to influence decisions or activities in a way consistent with their interests (positive control), but also when
they were in a position to prevent activities or decisions they did not agree with from being implemented (negative control).

Managing the control process.

The finding that there was a relationship between parent control and JV success lead the researcher to examine how managers in parent companies managed the control process. Three steps in the process were analyzed: (i) deciding what to control, (ii) deciding how to control, (iii) monitoring the control process.

In most cases, identifying which areas to control was not a straight-forward process. Rather, managers learned over time, through a trial and error process, which areas they needed to control. The most important factors in determining the managers' selection of areas to control were:

- the parent's criteria of success
- the JV's dependence on the parent's knowledge, skills or resources
- interorganizational politics
- the parents' attitude towards control

Deciding how to control involves identifying which mechanisms to use in order to control specific activities or decisions. The following factors were found to influence the managers' selection of control
mechanisms:
- characteristics of the activity or decision to control: uncertainty, routine/non-routine, importance to the parent's criteria of success, JV's dependence on parent's resources or skills in the area
- staffing of the JV: origin of JV manager, track record, drive for autonomy
- political circumstances of the control attempt: parent's attitudes and norms, parent's bargaining position, area-related attributes (sensitivity, urgency).

Managing the control process involves more than deciding what and how to control. This study found that to control successfully a parent needs to develop a formal and informal information system in order to measure the effectiveness of its control and in order to identify areas which call for changes in control.

A final finding of this study is that control is a dynamic process. What parents decide to control or how they control changes over time. The following factors were found to trigger changes in parents' control:

- JV results different from expectations
- JV results become more important to parent
- top management changes at headquarters
- JV ownership structure changes
- partner's control changes
- problems arise with parent's domestic business

Managing the control process means maintaining a fit between a parent's criteria of success, the areas it controls and the mechanisms it uses over time.

2. Implications for Managers.

By showing how poor JV performance can be remedied through changes in parent control, this research shows that control is an important determinant of JV success. Therefore managers need to recognize that the way they decide to manage the control process is going to have an impact on the JV's ability to meet their expectations.

The evidence from the Mexican case studies shows that managers can improve the chances that the JV will meet their criteria by achieving a fit between their criteria of JV success, the activities or decisions they control and the mechanisms they use to exercise control. Achieving this fit is not a matter of chance; it is a management problem. The findings summarized in the preceding section constitute a first step towards understanding how managers can solve this problem. The major implications of those findings are discussed below.
Successful management of the control process involves identifying and using control mechanisms which enable a parent company to exercise control over activities or decisions important to the achievement of its expectations. The findings of this study suggest that the chances of successful control over a JV are enhanced when the following conditions are met:

- there is a structure and resources are allocated at headquarters to manage the control process,
- there is a clear understanding of what is expected from the JV,
- there is an efficient communication system with the JV and with the partner.

Given that control is an on-going process and given that the way this process is managed has an impact on a JV's ability to meet their parents' expectations, it is important that managerial and financial resources be allocated by parent companies to the management of the control process. The evidence from the Mexican JVs shows clearly that failure to do so can lead to poor JV performance. This was the case when (i) there was no explicit structure at headquarters to control the JV and the task was delegated to a manager whose responsibility lay elsewhere (e.g., marketing for domestic operations), (ii) there was a structure but insufficient resources were allocated to it (e.g., one VP International in charge of 17 foreign operations). Therefore
successful control requires that a parent be committed to a JV and be prepared to allocate resources to exercise it.

A second implication of this study is that to control successfully managers in parent companies need a clear understanding of what benefits they expect to gain from the JV. Such understanding is critical in determining what a parent company needs to control: it helps managers in focusing control on activities and decisions which are important to the achievement of their objectives.

Third, managing the control process involves developing an information system and a measurement system capable of identifying actual or potential discrepancies between the JV's actions or results and the parent's expectations. A major reason why parents were slow in adapting their control was their inability to understand the need for changes in control. This was the case when a parent did not know what was happening at the JV level or when it failed to interpret the signals from the JV. In order to avoid such problems parents need a good understanding of the JV's situation. Formal financial and operating reports constitute one way of being informed about the JV, but in most cases they are not sufficient to provide a clear picture. The evidence from this study suggests that it is important for a parent to develop and maintain an open communication system with the JV and with its partner. The benefits derived from such a system are threefold. First, it enables the parent to have a better understanding
of the JV's problems and to develop better solutions to those problems. In particular it enables the parent to interpret the numbers which appear on the periodic financial and operating reports. Second, it enables the parent to be aware of changes occurring in the JV's business or in its partner's attitudes or expectations. Third, by keeping in touch with its partner, the parent shows its commitment to the JV, which is important to the Mexican partner, and which contributes to developing a trust relationship.

So far the discussion has focussed on the implications of the finding that control is a process that managers need to pay attention to in order to maximize the chances of JV success. To sum up the major recommendations to managers in parent companies are:

- make sure that you have a structure and resources at headquarters to manage the control process,
- decide what you want from the JV and how you are going to measure it,
- keep informed about the JV through formal reports and contacts with managers from the JV and your partner's organization.

Having recognized some prerequisites to successful control, the discussion now turns to an examination of the implications of this study for the actual management of the control process.
From an analysis of the control process in the ten JVs studied, this researcher has developed two frameworks which identify variables that influence the decisions of what and how to control respectively. Implicit in both frameworks is the observation that control is a political process: When deciding what and how to control, managers in parent companies need to understand the political circumstances of a particular control attempt: How is the JV's or the partner's management going to react? Who is in favor, who is opposed? How sensitive is the particular issue?. A further implication is that managers involved in exercising control need political skills. Control becomes a subtle process which involves selling ideas, gaining credibility, building consensus, support and commitment in order to influence specific areas of the JV's management. These implications are important because a parent does not have as much flexibility with a JV as a wholly-owned subsidiary. The interests of the partner need to be taken into consideration. So do its attitudes, norms, beliefs. One thing that managers in parent companies do not like is surprises. As a result when exercising control, managers need to be careful not to alienate their partner or the JV managers from them. A thoughtless control approach can destroy the trust between the parents, and when there is no trust it is more difficult to arrive at a compromise.

The findings from this study also suggest that in deciding what to control managers need to recognize the potential contribution of each parent to the JV. Specifically the findings suggest that a parent's
failure to control an area in which it could contribute to a JV could lead to poor performance. As a result, a parent which has skills or resources needed by the JV in specific areas should control those areas. Then it is up to the other parent to make sure that its partner does its job.

In deciding how to control managers can chose from a wide variety of control mechanisms. Through those mechanisms, the study shows, a parent in a minority position may well control areas that are important to the achievement of its expectations. The immediate implication is that ownership is not the main determinant of control. Secondary implications are "hire a good lawyer" and "call upon your creativity in using and developing means of influence". A good lawyer will help a parent by drawing a contract which protects the parent's interests. Among the most usual protections are; (i) the inclusion of specific agreements giving to a parent the authority to manage a given aspect of the JV (e.g., transfer of technology, marketing of the JV's products, management of the financial function); (ii) the negotiation of a veto right over specific decisions (e.g., decisions such as expansion, financing, capital structure need 60% of the votes at the board of directors for approval); (iii) the establishment of rules to solve potential conflicts (e.g., if the parents can't agree on the dividend payments in a given year, 50% of the JV's profits will be paid out in dividends).
Further, managers in parent companies need to recognize that they have at their disposal a wide range of tools and strategies to promote their interests in a JV. Control can be exercised through staffing, shaping the organizational context in which decisions are made, or activities carried out by manipulating organizational systems (reporting, bonus, promotion...) and organizational processes (planning, capital budgeting), establishing direct contacts with managers from the JV or the partner's organization.

There is no one right way of exercising control. Managers need to use their judgment in deciding what mechanisms are appropriate in specific circumstances. For example, managers in parent companies can successfully influence the JV's strategy in different ways:

- by appointing a JVGM from the parent's organization familiar with the parent's way of doing business, by reminding him of his allegiance by tying his bonus to the parent's results and his future promotion to his performance in the JV, and by monitoring the JV's future moves through the planning and capital budgeting system. This is possible when a parent has a management contract with JV or has the ability to appoint the JVGM.

- by being directly involved in the preparation of the plan itself, and by approving or rejecting the investment proposals submitted by the JVGM. This is possible when the
parent does not appoint the JVGM and when direct involvement is acceptable to the partner.

by using indirect ways only such as influencing the limit on capital expenditures that the JVGM can undertake on his own, approving plans and projects, giving feedback on documents and reports received from JVGM. Such an approach is appropriate when the parent is not in a position to tell the JV or the partner's managers what to do but nevertheless wants to influence the strategic direction of the JV.

Finally, given that JVs involve partners with different sets of expectations, different attitudes towards risk, different criteria of good management etc., conflicts or disagreements are bound to arise at one time or another. JVs are indeed less flexible than wholly-owned subsidiaries and managers in parent companies need to be prepared to compromise. Nevertheless, the evidence from this study shows that JVs can be a good entry strategy into foreign markets. In order to avoid surprises and conflicts between the two parents, it is important that managers from both sides spend time, effort and money in planning the investment. Typically, a JV involves a long-term commitment from the two parents. Parents can reduce some of the ambiguities involved in such arrangements by getting to know each other before the JV is actually set up. The data shows that few parent companies do a thorough job at defining their expectations and clarifying them with their partner before signing the JV contract. The benefits to be
derived from a mutual understanding of each other's expectations and management philosophies are:

- to avoid surprises
- to prepare the parents to deal with change
- to foresee potential areas of disagreement and plan for potential ways of resolving them
- to reduce the uncertainty that the JVCM has to deal with.

While setting a common set of objectives to the JV made life easier for the parents, it did not appear to be a prerequisite to JV success. In sum, JVs can be a satisfactory form of foreign investment. Even when they are in a minority position, managers in parent companies can still control the JV to ensure that it meets their expectations. However, in defining those expectations managers need to be aware of and understand their partners. JVs do require compromises and in the long run the interests of two parents need to be satisfied.

3. Implications for Researchers.

This section examines the implications of the findings presented in the study for students of JVs and International Business. It addresses three main points: (i) contribution to our understanding of parent control, (ii) contribution to our understanding of JV success, (iii) methodological implications.
Control

This dissertation is different from previous studies on parent control in JVs on two accounts: it shows that control is a more complex process than is generally recognized in the literature and it looks at control over time, while previous studies have looked at control in a static fashion.

First, the dissertation questions the traditional approach to control which consists in trying to measure amounts of control. By showing that control is context-specific this study suggests that a better understanding of control is gained by looking at what and how parent companies control.

Second, the concept of control which emerges from this dissertation is more complex than is generally recognized. Control can be exercised by a much wider range of mechanisms than those generally considered by earlier studies. In particular this study suggests that besides contractual arrangements and staffing there are very subtle ways of exercising control including the use of organizational processes and systems to structure the context in which activities are carried out or decisions made, and also formal and informal contacts with managers from the JV or the local parent. The political and interpersonal processes play an important role in the exercise of control and
therefore need to be taken into account by researchers.

A final difference between this dissertation and previous studies on control is that it looks at changes in control over time. Control is not static. It is a dynamic process. An understanding of why and how those changes took place was instrumental in arriving at the models proposed in this dissertation.

**JV success**

The finding that two parents in a JV may use different sets of criteria to evaluate the JV's performance is not new. However, by showing the extent to which those criteria differ, this study suggests that it is difficult to rely on a single indicator to measure JV success. Multiple criteria are used and what is a good criterion at one time may no longer be applicable at another time.

Another implication of this study is that it is difficult to capture the complexity of the concept of success and the divergence in the criteria used in an objective measure. As a result, a subjective measure is proposed. The measure involves creating an index of JV success based on the JV's ability to meet both parents' criteria of success. The following steps lead to the calculation of the index:

1st step: obtain a list of the criteria used by the two parents
2nd step: for each of the criteria, obtain a weight which measures its relative importance in the overall judgment. One way of obtaining those weights could be to rank order the criteria and to reverse the rankings attached to the criteria. For instance, if three criteria A, B and C are used, and if the most important is B and the least important A, the ranking would be: 1B, 2C, 3A. Then the weights would be: 3 for B, 2 for C and 1 for A. Another way to obtain the weights is to ask managers to assign 100 points among the various criteria. For instance, using the same criteria A, B and C as above, B could enter for 50% in the overall judgment, C for 30% and A for 20%.

3rd step: An indication of the extent to which each of the criteria of success has been met. A scale could be used for this purpose, ranging from "to a very little extent" to "to a very great extent".

The three steps are summarized in Table VIII-1

In order to obtain an overall index of JV success, the same procedure has to be carried out for the two parents. In a second step, the overall index of success for a given JV is calculated by simply adding the scores of the two parents. The maximum value that a particular JV can score on this index is 14 (7 for each parent).
### Table VIII-1: Elements in constructing an index of JV success

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>WEIGHTS (v_i)</th>
<th>EXTENT TO WHICH CRITERION HAS BEEN MET (e_i)</th>
<th>WEIGHT ( \times ) EXTENT TO WHICH CRITERION MET</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>v_A</td>
<td>1 2 3 4 5 6 7</td>
<td>( v_A \times e_A )</td>
</tr>
<tr>
<td>B</td>
<td>v_B</td>
<td>1 2 3 4 5 6 7</td>
<td>( v_B \times e_B )</td>
</tr>
<tr>
<td>C</td>
<td>v_C</td>
<td>1 2 3 4 5 6 7</td>
<td>( v_C \times e_C )</td>
</tr>
<tr>
<td>I</td>
<td>v_I</td>
<td>1 2 3 4 5 6 7</td>
<td>( v_I \times e_I )</td>
</tr>
</tbody>
</table>

\[ \sum_{i=1}^{n} v_i \times e_i \]
There are several advantages to the suggested definition of JV success. First of all, it evaluates the performance of the JV in relation to what the parents are concerned with. Hence the researcher does not impose his (her) own criterion of success and then measure how well the JV fares along his (her) criterion. For example, it avoids the problems resulting from the use of a criterion such as, say, ROI, to measure the performance of a JV where none of the parents care about ROI. It seems more logical to measure success in relation to what the parents try to maximize rather than in relation to a criterion that the researcher assumes and decides the parents should maximize.

A second advantage of our definition is that it takes into account all the dimensions that a parent decides are relevant. Thus our measure is more consistent with the way managers form their judgment since it has been found that they do not rely on a single dimension of success to evaluate a JV's performance.

A third advantage is that both qualitative and quantitative criteria of success can be considered in our measure. So, here again our measure is consistent with the way managers measure success.

A fourth advantage is that the degree of success of JVs where different criteria are used can be compared, since success is measured not in terms of the criterion itself (i.e., a growth rate of 20% or ROI of 12%) but rather in terms of how satisfied a parent is with the
achieved along that particular criterion. Comparisons between JVs operating in different industries can be made on the same basis, since the judgments made by managers can be considered to adjust implicitly to industry norms. Consequently the researcher is not in the awkward position of having to compare two JVs with an ROI of 12%, one operating in an industry where the norm is 6% and the other where the norm is 15%. Our measure would classify the former JV as "very successful" and the latter as "not so successful", assuming ROI is the criterion used by managers.

The definition suggested, however, has certain limitations. First of all, it is subjective and relies on the judgment of managers. The risks are that the measure obtained when using our definition of JV success be biased by the respondent's frame of reference and personal values or by the fact that some managers may be reluctant to recognize the extent to which things are going wrong when they are going wrong. The issue is: how do we know that what we measure is the degree of success of the JV? It is believed that a good way to validate our subjective measure is by testing the answer of one manager against the opinions of other managers.

A second limitation of the definition of JV success used in this research is that it is not very discriminatory. When two JVs are successful, our measure does not indicate which one is more successful and how much more successful. The creation of an index to measure JV
success, such as the one suggested, represents a step in trying to answer these questions.

Methodology

Due to the small sample size and the wide variety of responses, it is difficult to generalize from the data. As a result, this dissertation does not lead to specific recommendations which suggest to managers what to control and how to control given a specific set of expectations. Rather, this dissertation proposes some general models for examining the question of parent control in JVs. In that sense the dissertation represents a first step towards the development of answers to the specific questions.

Other limitations to this study are as follows:

- the sample selection process (convenience sample)
- the lack of homogeneity in the sample (industries, ownerships, types of local parents)
- the data collected may reflect the managers' biases
- the study is not reproducible because the analysis reflects the researcher's perceptions and interpretations.

In spite of the above limitations the clinical approach proved particularly useful. First, the richness of the data enabled this
researcher to realize that trying to measure the amount of parent control was not the most appropriate way to approach the issue of parent control. As a result, this researcher could redefine the focus of the dissertation and investigate what appeared to be more relevant questions: what and how do parents control JVs.

Second, the method of data collection enabled this researcher to gain a good understanding of the control process in JVs. In particular it helped in picking up such subtleties as the importance of interactions between people and changes over time.

Third, the thesis shows the usefulness of looking at turnaround situations to gain insights about what made the JVs successful.

Fourth, the study confirms the usefulness of interdisciplinary research to gain conceptual and theoretical insights about the managerial phenomena studied. Among the fields of research referred to in this dissertation are: Business Policy, International Business, Organizational Behaviour, Sociology.

In sum, the methodology adopted in this research has led to tentative models which need to be tested and refined. However, it has proved relevant since it has enabled the development of models useful to understand the exercise of parent control in JVs.
4. Areas for Future Research.

Given the broad nature of the research question addressed in this dissertation, the results are presented in the form of general frameworks or propositions. As a result, the logical next step could involve two sorts of studies: studies designed to test the validity of the relationships hypothesized in the findings or studies designed to refine the proposed models. In turn, these latter studies could improve upon the present findings by adding new variables useful to understand and explain how managers in parent companies decide what and how to control, or by narrowing the scope of investigation to specific functions or areas.

By attempting to describe the control process with some depth, this researcher has identified dimensions of control which could be used in the design of a very subtle questionnaire to guide or structure a study of control. At the same time the findings of this dissertation show that more conceptual work is required to improve our understanding of control. For instance typologies useful to classify types of relationships between parent companies and JVs need to be developed.

A wide variety of control mechanisms have been identified in this study. However, more work is required to establish their appropriateness and effectiveness: which mechanisms are most useful and in what circumstances? Also, some of those mechanisms are very
complex (planning process, budgeting process) and deserve special attention. An understanding of how such mechanisms are used and for what purposes would be a useful contribution.

Other mechanisms are very subtle; they involve interpersonal relationships, influence, power, commitment, trust, etc. A better understanding of the exercise of control in JVs could be derived from an analysis of similar processes in other types of circumstances. For instance, it could be useful to draw a parallel between the relationship of two parents in a JV and that of two parents in a marriage. Are there any concepts or theories developed in areas such as psychology, social psychology which could be applied to JVs?

The analysis of various control mechanisms could be done in specific areas or functions. For instance, by taking one area such as technology or marketing, a researcher could investigate the exercise of control in different settings (e.g., different levels of technological complexity or stability). Further, this study shows that successful control over one area can be achieved in different ways (e.g., control over a JV's strategy). A useful contribution for managers would be to identify contingencies which make the use of certain mechanisms more appropriate than others.

Other potential areas of study could involve the test of the proposition that MNC parents tend to manage all their foreign
subsidaries in the same way. By comparing the management of several JVs involving the same MNC parent it is possible to test for differences in control. If there are differences, how can they be explained? A similar type of research can be undertaken to see whether there are differences in the way parent companies control JVs and wholly-owned subsidiaries.

Also, greater detail is needed about the managerial implications of each partner realizing what skills are required by the JV to make it successful and which partner shall supply them. And finally, more research is needed to identify other factors which may be important in explaining JV success.

5. Summary.

The major contributions of this study are:

- to show that being in a minority position does not prevent a parent company from controlling a JV in a way consistent with its interests
- to show that to maximize the chances of JV success, managers in parent companies need to achieve a fit between their criteria of success, the activities or decisions they control and the mechanisms they use to exercise control
- to show the complexity of the control process by identifying
a wider range of control mechanisms than is generally recognized
to show that control is a political process which is based,
in part, on relationships between people
to show that the concept of control is more usefully approached by looking at what and how parents exercise control rather than by trying to measure how much control they have.
APPENDIX 1
PARENT QUESTIONNAIRE

I- Background of the JV

1.1 Establishment of the JV:
   - When?
   - Why?  (What was your company's purpose in entering a JV at the time of its creation)
   - Where did the JV fit in the company's strategy?
   - How?  Describe the process of finding a partner, negotiating and arriving at a contract.

1.2 Overview of the JV's growth:
   - major phases (successes, failures)
   - major changes in JV's strategy
   - major changes in JV's management (people, and/or the way it is run)
   - data on sales, profits, market share
   - any changes in equity ownership?

1.3 JV Performance:
   - How well has the JV been doing?  Criteria?
     Compared to major competitors
     Compared to its own potential
   - Along your criteria show on a graph how the JV's performance has evolved over time.
     \[ \text{Graph}
     \]
     How do you explain the pattern indicated above?

1.4 Has your company been involved in discussions with the Mexican government regarding the JV?
   - What came out of these discussions?
   - Who handled them?

1.5 If your company had had the choice, do you think that it would have preferred to own 100% of the Mexican operation:
   - At time of entry
   - Today.

II- Expectations

2.1 How satisfied have you been with this joint venture?
   - How do you go about deciding how satisfied you are with the JV?
     - Criteria/Expectations/Goals of the JV
     - Measures: how often?  By whom?

2.2 Is the JV evaluated on the basis of its own performance (how do you measure it) and/or on the basis of its contribution to your company's strategy (how do you measure it)?

346
2.3 Have your expectations regarding the JV changed since the time it was first established, or do you still use the same criteria?

2.4 Are you aware of your partner’s expectations regarding the JV? How well, do you think, have they been met?

2.5 Do you see any potential conflict between the satisfaction of your expectations and those of your partner by the JV?

2.6 Do you see any way that this JV could be more successfully managed? How.

III- Control

3.1 How does your company make sure that its expectations in the JV are met? Are there any specific mechanisms designed for that purpose? Have these mechanisms, or the way they operate, changed over time? If yes why and how?

3.2 How much control does your company have over the JV’s management and in what areas?

3.3 How much control does your partner have?

3.4 How does your company go about influencing the way the JV is managed?
   - Staffing?
   - Structuring the context within which decisions are made?
   - Management practices
   - Reporting relationship
   - Compensation
   - Promotion

3.5 What are the most important decisions to be made in a company competing in the business the JV is in? How are these decisions made in the case of the JV?
   - initiated/negotiated/approved...

3.6 Are there any decisions related to the management of the JV that your company wants to make, to approve before they are implemented?

3.7 Has your influence or involvement in the JV affairs changed since the time the JV was first established? What about the amount of influence of your parent?

3.8 How often do you meet with (JV management and) your partner to discuss JV affairs?
What are the issues discussed then?
Who brings them up?
How are they resolved?

IV- Transfers
4.1 What are the linkages existing between:
   1- your company and the JV,
   2- your partner and the JV

Transfers of funds
   people
   services
   products

4.2 At what conditions are these transfers made?
   How are these conditions set? By whom?

4.3 How dependent is the JV on the transfers,
   - from your company?
   - from your partner?

4.4 How satisfied is your company with those transfers and with
   the conditions attached to them?

4.5 Who are the people in your company who have or have had some
   exposure to the JV? For what purposes?

4.6 Has your company had any influence in shaping the management
   practices and procedures used in the JV? In which areas?

4.7 Has your partner had any influence on the management
   practices and procedures?

V- Parent background
5.1 Major products - markets,
   - list
   - how related/similar are they to those of the JV?

5.2 What is your company's experience in dealing with operations
   in foreign markets,
   - years
   - countries
   - in LDCs?
What is your company's track record (successes, failures) in
foreign markets?
5.3 What is your company's attitude towards JVs? 
   experience with JVs?

5.4 Is there any corporate policy dealing with how to run foreign 
   operations in general, JVs in particular?

5.5 Importance of JV in overall operations: what is the pro-
   portion of your foreign sales represented by the JV? Of your 
   total (domestic and foreign) sales?

5.6 How critical do you feel this JV is to the future growth plans 
   of your company?

VI- JV's planning system
6.1 Is there any planning system guiding the management of the 
   JV?
   - How are the plans formulated?
     - Initiation/Impetus/formulation
   - How are the objectives formulated?
     - Kind of objectives?
     - By whom
     - How well have they been achieved
   - How often is the plan monitored? By whom?

6.2 How well has the planning system worked over time?

6.3 What are your company's inputs into the system?
   - Formulation
   - Implementation
   - Monitoring

6.4 What are your partner's inputs?

VII- Technology
7.1 How dependent is the JV on technological support from the 
   parents?

7.2 What is the amount of technological risk/uncertainty in the 
   JV's business?
   - No risk
   - Moderate risk
   - Very high risk
   1 2 3 4 5 6 7

7.3 What would you consider to be the major sources of technol-
   ogical risk/uncertainty in the JV's business?

7.4 Describe briefly the technology involved in the JV's pro-
   duction process. How advanced is it compared to what is 
   available on the market?
7.5 The production process for JV's products uses equipment that incorporates
Very simple technology                      Very complex
1                                        7
2  3  4  5

7.6 Which of the following categories best describes the configuration of the production process in the JV?
- Job shop (independent operations)
- Disconnected line flow (batch)
- Connected line flow (assembly line)
- Continuous flow
- Other

7.7 Which of the following categories best describes the kind of equipment used in the production process of your company?
- General purpose equipment
- Some specially designed machines for key tasks
- Frequent use of machines that perform multiple operations at one station
- Integration of special machines at some stations to form islands of automation
- Extensively integrated equipment (systems)

7.8 How much training is required to enable a production worker to perform his task satisfactorily from the time he comes in?
- Number of weeks?

7.9 Since the JV has been in operation, how stable has the technology used been, along the following dimensions?
Very unstable                      Very stable
Process configuration
1  2  3  4  5  6  7
Equipment used
Skills required to perform operations

VIII-Finance
8.1 How often do you get financial data from JV? What kind of data?

8.2 Is there a limit on Capital expenditures allowed to JV management? Who sets the limit?

8.3 What is the policy regarding the disposition of profits and dividend vs reinvestment? How are dividend payments decided?

8.4 How has the growth of the JV been financed so far?
IX- Marketing

9.1 Is any part of the JV's production sold to your company (to your partner)?

9.2 What is the proportion of the JV's sales which is exported outside Mexico? Do your JV's products compete on foreign markets with one of the parents?

9.3 How similar is the JV as it compares with your company along the following dimensions related to the marketing function?

- Not similar at all
- Very similar

1 2 3 4 5 6 7

Distribution channels
Advertising
Promotion
Product characteristics
Customer profile

9.4 How are JV's products priced?

X- Personnel

10.1 Hiring and firing of JV personnel
- Who appoints JV management?
- What are the criteria for selection?

10.2 How are JV managers compensated?
- Salary
- Bonus
- Other
- How is the bonus calculated?

10.3 Promotion system
- Within JV
- Of JV personnel to parents
- Of parent personnel to JV

10.4 On what basis are JV managers promoted?

10.5 Do you feel that running a JV required a set of skills different from those required to run an independent business (or WOS)?
- What would be the profile of a potential JV manager?
- How does that profile compare to the one of those who have been running, or are running the JV?

10.6 What is the board's composition? What is its role?

10.7 Is there any other committee (executive, supervisory) which is involved in the management of the JV?
- Who is a member of that committee? What is their mandate?
APPENDIX 2
JOINT VENTURE QUESTIONNAIRE

I- Background of the JV
1.1 Establishment of the JV:
   - When?
   - Why? (What was your company's purpose in entering a JV at the time of its creation)
   - Where did the JV fit in the company's strategy?
   - How? Describe the process of finding a partner, negotiating and arriving at a contract

1.2 Overview of the JV's growth
   - major phases (successes, failures)
   - major changes in JV's strategy
   - major changes in JV's management (people, and/or the way it is run)
   - data on sales, profits, market share
   - any changes in equity ownership?

1.3 JV Performance
   - How well has the JV been doing? Criteria?
     - Compared to major competitors
     - Compared to its own potential
   - Along your criteria show on a graph how the JV's performance has evolved over time

   ![Graphs showing performance evolution]

   How do you explain the pattern indicated above?

II- JV's industry
2.1 Describe the major characteristics of your industry:
   - Concentration
   - Competitors (on what basis)
   - Barriers to entry
   - Suppliers
   - Customers
   - Government involvement

2.2 What are the KSF in that industry?

III- Expectations
3.1 What do you think were the motivations of your parents for entering this JV?

3.2 How well, do you feel, the JV has satisfied their respective motivations?

3.3 Is your company considered as a profit center by your parents?
3.4 How is the performance of your company evaluated? Who sets the standards?

3.5 Who in the parent companies do you report to on what and how frequently?

3.6 Do you have meetings, beside board meetings, with people from any or both of your parents? What do they worry about or what are they most interested in?

3.7 How satisfied are you with the performance of your company? Do you see any way it could be improved?

IV- Control

4.1 What kinds of problems do you bring to one or both parents before attempting to solve them?

4.2 How much autonomy do you feel you have relative to your parents? In what areas?

4.3 How involved is each of the parents in the management of the JV?

4.4 What are the most important decisions you have to make in running your company? How are these decisions made/initiated/approved?

4.5 Are there any decisions that you think could be made better and faster if the parent(s) did not have to be involved?

4.6 Has the amount of autonomy allowed to your company changed over time?

V- Transfers

5.1 What are the linkages existing between your company and your parent companies?

Transfer of funds/people/services/products

5.2 At what conditions are these transfers made?

5.3 How dependent do you feel your company is on transfers from your parents?
5.4 How much flexibility do you have in shaping the management practices and procedures used in your company?

5.5 Do you feel that any of the linkages with your parents limits the flexibility of your company? Or improve the competitiveness of your company?

VI - JVs planning system
6.1 Is there any planning system guiding the management of the JV?
   - How are the plans formulated?
     - Initiation/Impetus/formulation
   - How are the objectives formulated?
     - Kind of objectives?
     - By whom?
     - How well have these been achieved?
   - How often is the plan monitored? By whom?

6.2 How well has the planning system worked over time?

6.3 What are your company's inputs into the system?
   - Formulation
   - Implementation
   - Monitoring

6.4 What are your parents inputs into the planning system?

VII - Technology
7.1 How dependent is the JV on technological support from the parents?

7.2 What is the amount of technological risk/uncertainty in the JV's business?
No risk Moderate risk Very high risk
1 2 3 4

7.3 What would you consider to be the major sources of technological risk/uncertainty in the JV's business?

7.4 Describe briefly the technology involved in the JV's production process. How advanced is it compared to what is available on the market?

7.5 The production process for JV's products uses equipment that incorporates
   Very simple technology Very complex
   1 2 3 4 5 6 7
7.6 Which of the following categories best describes the configuration of the production process used in the JV?
- Job shop (independent operations)
- Disconnected line flow (batch)
- Connected line flow (assembly line)
- Continuous flow
- Other

7.7 Which of the following categories best describes the kind of equipment used in the production process of your company?
- General purpose equipment
- Some specially designed machines for key tasks
- Frequent use of machines that perform multiple operations at one station
- Integration of special machines at some stations to form islands of automation
- Extensively integrated equipment (systems)

7.8 How much training is required to enable a production worker to perform his task satisfactorily from the time he comes in? Number of weeks?

7.9 Since the JV has been in operation, how stable has the technology used been, along the following dimensions?

<table>
<thead>
<tr>
<th>Very unstable</th>
<th>Very stable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process configuration</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Equipment used</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Skills required to perform operations</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

VIII-Finance
8.1 How often do you have to report financial results to your parents? What kind of results are they interested in?

8.2 How much financial autonomy do you have? Limit on capital investments? Who sets the limit?

8.3 What is the policy regarding the disposition of profits and dividend vs reinvestment? How are dividend payments decided?

8.4 How has the growth of the JV been financed so far?

IX-Marketing
9.1 Is any part of your company's sales sold to your parents?

9.2 What is the proportion of the JV's sales which is exported outside Mexico? Do your JV's products compete on foreign markets with one of the parents?
9.3 How similar is your company as it compares with your parents along the following dimensions related to the marketing function?

Not similar at all  Very similar

1 2 3 4 5 6 7

Distribution channels
Advertising
Promotion
Product characteristics
Customer profile

9.4 How are the products you manufacture priced?

X Personnel
10.1 How did you become GM of the JV?

10.2 What are your future promotion expectations? (go to one parent's organization?)

10.3 How are you and the top JV managers compensated?
- Salary
- Bonus
- Other
How is bonus calculated? Who decides?

10.4 On what basis are managers within your company promoted?

10.5 Do you feel that your job is different from that of a WOS GM or GM of an independent company? How does it differ?

10.6 What is the board's composition? What is its role?

10.7 How would you describe your relationships with board? with parents?
<table>
<thead>
<tr>
<th>IMPORTANCE OF DECISION</th>
<th>DECISION</th>
<th>LOCUS OF DECISION-MAKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Important</td>
<td></td>
<td></td>
</tr>
<tr>
<td>at all</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Important</td>
<td></td>
<td></td>
</tr>
<tr>
<td>extremely</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DECISION</th>
</tr>
</thead>
<tbody>
<tr>
<td>JV ALONE*</td>
</tr>
<tr>
<td>MNC</td>
</tr>
<tr>
<td>LP</td>
</tr>
<tr>
<td>MNC ALONE</td>
</tr>
<tr>
<td>LP ALONE</td>
</tr>
<tr>
<td>SHARED MNC/LP</td>
</tr>
<tr>
<td>SHARED MNC/LP/JV</td>
</tr>
<tr>
<td>SHARED LP/JV</td>
</tr>
<tr>
<td>SHARED MNC/LP/JV</td>
</tr>
</tbody>
</table>

1. Budgeting
2. Dividend Policy
3. Fund Raising
4. Product Selection
5. Pricing
6. Distribution
7. Promotion
8. Level of Exports
9. Level of Production
10. Quality Control
11. Production Planning & Control
12. Suppliers
13. Hiring & Firing
14. Wage & Labour Policy
15. Accounting
16. Organization Structure
BIBLIOGRAPHY


Dun and Bradstreet, *International Market Guide: Latin America*. Section 1, Middle America.

John H. Dunning, *American Investment in British Manufacturing*


Industridata 1980-81, cuarta edicion, Mercemetrica ediciones S.A.


Remy Montavon, with the collaboration of Miguel Wionczek and Francis Piquerguez, *The Role of Multinational Companies in Latin America: A Case Study in Mexico*, (ECSIM, Saxon House, Teakfield Ltd. 1979).


Marynka Olazar, *Guide to the Mexican Markets*, Sinaloa 9, Desp. 503, Mexico D.F.

J. Irwin Peters, "The New Industrial Property Laws in Mexico and


END

16-09-183

FIN