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Published in:
Management Accounting Research

DOI:
[10.1016/j.mar.2014.10.001](https://doi.org/10.1016/j.mar.2014.10.001)

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2015

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):

Kooistra, J., & Kamminga, P. (2015). Joint venture dynamics: The effects of decisions made within a parent company and the role of joint venture management control. *Management Accounting Research*, 26, 23-39. <https://doi.org/10.1016/j.mar.2014.10.001>

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

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ARTICLE INFO

Article history:

Received 10 August 2012

Received in revised form 2 October 2014

Accepted 8 October 2014

Keywords:

JV dynamics over time

Effects of a parent company's decisions

Complexity of JV dynamics

Role of JV management control

ABSTRACT

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

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1. Introduction

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

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

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

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

Some authors (e.g., Parkhe, 1993; Yan, 1998; Bamford et al., 2004; Kamminga and Van der Meer-Kooistra, 2007) have argued that a main reason for these dynamic processes is the complexity of the management control of these relationships exercised by the parent companies; which we call JV management control¹. JV management control is complex as the parent companies share the management control of the JV and, moreover, have to control the relationship with each other. Kamminga and Van der Meer-Kooistra (2007) claim that the JV management control exercised by the parent companies has to be geared to the characteristics of the JV relationship. If the JV management control does not match the characteristics of the JV relationship, such a mismatch may weaken the relationship. This study focuses on dynamic processes in JV relationships during their life. We use the term of JV dynamics to refer to the chains of effects, which may weaken or cement the JV relationship, and the responses by the parent companies over the lifetime of JV relationships. JV dynamics is a multifaceted phenomenon, as various developments within and outside a JV relationship can affect the relationship (Yan and Zeng, 1999). So far, the literature has focused on the effects of environmental developments and developments inside the JV itself on JV dynamics and has not paid much attention to the effects of decisions made within the parent companies. However, the parent companies play a pivotal role as they determine the JV's strategy and activities and decide about the continuation or termination of the JV relationship. Therefore, we focus our study on how decisions made within parent companies can create JV dynamics. More specifically, as we will explain below, we study the effects of decisions made within one of the parent companies on JV dynamics. Moreover, we examine the antecedents of these decisions. Insights into these antecedents will increase our understanding of how a parent company's decisions can affect the JV relationship and create JV dynamics.

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

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

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

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

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

2. Towards a theoretical framework

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

¹ JV management control includes the control of the JV as well as the control of the relationship between the parent companies.

Fig. 1. Theoretical framework of the effects of decisions made within a parent company on JV dynamics.

to decisions within a parent company, the conditions that could strengthen the effect of these decisions on the JV relationship, and the dynamic processes created by a parent company's decisions, including the parent companies' responses to these decisions and the use of the JV management control in counteracting effects that weaken the JV relationship. We incorporate the antecedents of a parent company's decisions in the theoretical framework, as knowledge of the antecedents that influence these decisions helps to gain a deeper insight into their effects on the JV relationship. The framework is depicted in Fig. 1.

Below we will discuss the elements included in the theoretical framework and how they influence each other. In Section 2.1, we will analyse the decisions made within a parent company that create JV dynamics, and the antecedents of these decisions. In addition, we will investigate the effects of these decisions on the JV relationship, the responses of the parent companies to these effects, including their use of the JV management control. In Section 2.2, we will discuss the conditions that could strengthen the effects of decisions made within a parent company and, thereby, create complex dynamic processes within the JV relationship. Finally, in Section 2.3, we will put the analyses of the elements of the theoretical framework together.

2.1. Decisions within a parent company creating JV dynamics and their antecedents

Following Yan and Zeng (1999), in this section we will analyse how antecedents within a parent company, within the JV relationship, and in the environment of the JV relationship lead to decisions within a parent company which affect the JV relationship and thereby create JV dynamics. We use Yan and Zeng's distinction between these areas as it provides a better understanding of the responses of the parent companies to the effects on the JV relationship of decisions made within a parent company. We expect that a parent company will be better able to influence the effects of decisions that have their antecedents within its own company rather than within the environment of the JV relationship. In most instances it will not be possible for a parent company to influence the environment of the

JV relationship. Even if the antecedents are within the JV relationship a parent company may face limitations in its decision-making as it has to pay attention to its partner's interests, and, moreover, if it has a weak bargaining power it may hardly be able to influence the JV relationship.

In the following sub-sections, derived from the literature, we will discuss examples of decisions made within a parent company as a response to antecedents in the three areas and their effects on the JV relationship. Table 1 provides an overview of the antecedents discussed below, their location, decisions of a parent company taken as a response to these antecedents, and their effects on the JV relationship.

2.1.1. Antecedents within a parent company

Because of antecedents such as approaching retirement age, career change or moving to another company, a parent company may be forced to replace a key individual directly or indirectly involved in the JV relationship. As trustworthy personal relationships between key individuals are important for resolving conflicts, discussing developments and actions to be taken, and enhancing knowledge flows, replacing key individuals may damage personal relationships and lead to less trust (Boersma et al., 2003; Inkpen and Currall, 1998; Lunnan and Haugland, 2008; Luo, 2001). Lunnan and Haugland (2008) argue that, as developing trustworthy personal relationships takes time, frequent changes in key individuals may weaken a JV relationship even in the long term. If trustworthy personal relationships are a crucial element of the JV management control, frequent changes in key individuals can impede the building of such personal relationships and lead to a mismatch between the characteristics of the JV relationship and the JV management control (Kamminga and Van der Meer-Kooistra, 2007). Another example of replacing a key individual that could have far-reaching consequences for a JV relationship is the replacement of a parent company's CEO. This replacement may be caused by a take-over of the parent company. If the new CEO has different ideas about the company's strategy, this may have consequences for the role the parent company wants to play in the JV relationship. The new strategy may even substantially decrease

Table 1

Antecedents leading to decisions within a parent company that create JV dynamics.

Area in which the antecedent is located	Antecedent	Decisions and possible effects
Within a parent company	The retirement of key individuals; key individuals changing career or moving to another company; a take-over of a parent company	Replacing key individuals involved in the JV relationship may damage personal relationships based upon trust. This can weaken the JV relationship. Moreover, new key-individuals may have different ideas about the role of the JV, which may threaten the JV relationship (Boersma et al., 2003; Inkpen and Currall, 1998; Lunnan and Haugland, 2008; Luo, 2001)
Within a parent company	Improving the decision-making processes with respect to a parent company's core activities	To improve the decision-making processes with respect to its core activities a parent company decides to change its organisational structure. If this change complicates the decision-making processes with respect to the JV relationship this can create ambiguity. Because of this ambiguity the partner(s) could become frustrated about the efficiency of the co-operation and face unmet expectations (Doz, 1996; Van der Meer-Kooistra and Kamminga, 2010)
Within the JV relationship	Learning how to manage and control a JV relationship in general	Learning how to manage and control a JV relationship decreases the level of uncertainty in the relationship between the JV parties and leads to more effective control and better decisions (Cäker and Siverbo, 2011; Das and Kumar, 2007; Inkpen and Currall, 2004)
Within the JV relationship	Learning how to co-operate with a specific partner	Learning how to co-operate with a specific partner makes the partner's behaviour more predictable and decreases the level of behavioural uncertainty. This may increase the level of trust between the JV partners and stimulate new cycles of learning and reevaluations of the partners' relationship (Doz, 1996; Sako, 1992; Zucker, 1986)
Within the JV relationship	Learning about a partner's knowledge and expertise	Through inter-partner learning, the need for co-operating may disappear. This may threaten the JV relationship (Hamel, 1991; Nakamura et al., 1996)
In the environment of the JV relationship	Market developments leading to new opportunities for a parent company	New market opportunities could remove a parent company's strategic motives for initially establishing the JV relationship and thereby harm the similarity or complementarity of the parent companies' strategic motives. This may threaten the JV relationship (Beamish and Delios, 1997; Harrigan, 1986; Harrigan and Newman, 1990)
In the environment of the JV relationship	Technological developments making a parent company's contributions obsolete	If technological developments make a parent company's contributions to the JV obsolete, the need for continuing the JV relationship may disappear (Das and Teng, 2000a; Kamminga and Van der Meer-Kooistra, 2007; Spender, 1989)
In the environment of the JV relationship	Market developments harming the financial situation of a parent company	If market developments harm a parent company's financial situation and its JV also performs badly, the parent company will probably look for ways of withdrawing from the JV relationship. However, if the JV is performing well, the parent company will probably put more effort into the JV relationship, which can cement the JV relationship (Hennart et al., 1999)
In the environment of the JV relationship	Market developments lead to bad JV performance	When the JV performs badly the parent companies tend to tighten their control over the JV. However, if the JV operates in an environment with a high level of uncertainty, this tighter control will slow down and confuse the decision-making processes. As a result, the JV's performance may even worsen and thereby weaken the JV relationship (Killing, 1983; Kamminga and Van der Meer-Kooistra, 2007)

the importance of the JV relationship and make the parent company decide to withdraw from the relationship (Van der Meer-Kooistra and Kamminga, 2010).

To improve the decision-making processes with respect to its core activities a parent company may decide to change its organisational structure. However, this change could complicate the decision-making processes related to its JV relationship(s). Doz (1996) and Van der Meer-Kooistra and Kamminga (2010) argue that complex decision-making processes could create JV dynamics if they lead to ambiguity within the JV relationship. Because of this ambiguity the partner(s) could become frustrated about the efficiency of the co-operation and face unmet expectations.

2.1.2. Antecedents within the JV relationship (i.e., in the JV and in the relationship between the JV parties)

A parent company lacking experience with how to manage and control a JV relationship faces considerable uncertainty in setting up and developing such a relationship, including the design of the JV management control. However, a parent company can learn over time how to manage and control the JV relationship (Cäker and Siverbo, 2011; Das and Kumar, 2007). Such learning decreases the level of uncertainty in the relationship between the JV parties and leads to more effective control and better decisions (Inkpen and Currall, 2004; Kale et al., 2000; Mayer and Argyres, 2004). A parent company can also learn in the

course of a JV relationship how to co-operate with specific JV parties, which makes the parties' behaviour more predictable and decreases the level of behavioural uncertainty perceived by the parent company. Doz (1996) emphasizes the need to learn about the partner's behaviour and expectations, both cognitively and behaviourally. Various scholars claim that the types of learning described above (i.e., learning how to manage and control a JV relationship in general, and learning how to co-operate with specific JV parties) increase the level of trust between the JV parties and help to smooth their relationship (Sako, 1992; Zucker, 1986).

Doz (1996) points to the importance of joint learning about the JV relationship and sharing the acquired insights between the JV parties. He argues that such joint learning allows the JV parties to re-evaluate their relationship and to readjust the initial conditions of their relationship. This may stimulate new cycles of learning and re-evaluations, and lead to greater trust and adaptive flexibility.

However, learning may also weaken a JV relationship. A parent company could learn about its partner's knowledge and expertise through co-operating in a JV relationship. Hamel (1991) discusses how through such inter-partner learning, the need for a partner's contributions may disappear over time. This may weaken the JV relationship, because the parent company that has acquired its partner's knowledge and expertise, may no longer need to co-operate (see also Nakamura et al., 1996). Therefore, learning about a partner's knowledge and expertise may undermine the need to co-operate and, hence, a termination of the JV relationship is likely.

2.1.3. Antecedents in the environment of the JV relationship

A parent company may change its strategy because of new opportunities in the market. Such a strategic change could remove the strategic motives for initially establishing the JV relationship and, as a result, harm the similarity or complementarity of the strategic motives of the parent companies (Beamish and Delios, 1997; Harrigan, 1986; Harrigan and Newman, 1990). In this example, a change in a parent company's strategic motives could weaken the JV relationship, as the interests of the parent companies are no longer aligned. Another example of an environmental antecedent is where a parent company's contribution to the JV relationship involves specific knowledge and over time this knowledge diffuses over the market and becomes less specific and instead more common knowledge (Kamminga and Van der Meer-Kooistra, 2007; Spender, 1989). If the primary strategic motive of the other parent company was to gain access to this knowledge, this strategic motive may no longer be relevant. As a result, the JV relationship has less value to this parent company and it may decide to terminate it (Das and Teng, 2000a). A third example of an environmental antecedent is market developments that harm the financial situation of a parent company. If a parent company has financial problems and its JV also performs badly, there may no longer be a justification for that parent company to put effort into the JV relationship. Therefore, it is likely that the parent company will reconsider its involvement in the JV relationship and look

for ways of withdrawing from the relationship (see also Hennart et al., 1999). Hence, a situation in which a parent company faces financial problems and its JV is performing badly can weaken the JV relationship. However, if a parent company has financial problems and its JV is performing well, the JV relationship will become more important for that parent company. It is likely that its interest in the relationship will increase and that it will put more effort into the relationship. This can cement the JV relationship.

Another effect of bad JV performance is described by Killing (1983). He claims that when the JV performs badly the parent companies tend to tighten their control over the JV. However, if the JV operates in an environment with a high level of uncertainty, such a response will probably be counterproductive, as this tighter parental control is likely to slow down and confuse the decision-making processes. As a result, the JV's performance may even worsen and the parent companies could then decide to terminate the JV relationship. In fact, Killing refers to a situation in which tight parental control over a JV operating in a highly uncertain environment creates a mismatch between the characteristics of the JV relationship and the characteristics of the JV control (Kamminga and Van der Meer-Kooistra, 2007).

2.2. Conditions stimulating the emergence of more complex dynamic processes

Drawing on the literature, we expect that three conditions can strengthen the effect of decisions made within a parent company on the JV relationship and can stimulate the emergence of complex dynamic processes; especially where these decisions weaken the JV relationship and, thereby, create a need to reinforce the relationship. These conditions are: (1) tightness of the parent company's control over the JV relationship; (2) bargaining power of the parent company; and (3) level of uncertainty, including both behavioural and environmental uncertainty. Below we will describe how these conditions can create more complex dynamic processes.

2.2.1. Tightness of control

A parent company exercising tight control over its JV will be directly involved in the activities and the decision-making processes of the JV (Killing, 1983; Li et al., 2013). Therefore, we expect that decisions made within this parent company can more easily affect the JV relationship. Hence, it is likely that the effects of decisions will be strengthened if the parent company exercises tight control over the JV.

2.2.2. Bargaining power

Yan and Gray (1994, 2001) discuss an additional condition that can strengthen the effects of a parent company's decisions on the JV relationship. They argue that a parent company with a strong bargaining power can exercise more control over the JV relationship. Such a company has more influence over the use of the JV management control and can impose additional controls. Therefore, we assume that a (relatively) strong bargaining power of a parent company

could also strengthen the effects of decisions made within this parent company on the JV relationship.

2.2.3. *Level of uncertainty*

If decisions made within a parent company weaken the JV relationship, the parent companies could counteract these effects by using the JV management control. If the JV relationship faces low uncertainty, we expect that the effects of decisions made within a parent company on the relationship can be more or less foreseen and, moreover, if these effects weaken the JV relationship the parent companies will be able to use the JV management control to counteract these effects (Kamminga and Van der Meer-Kooistra, 2007). In such a situation, the dynamic processes will be limited and their outcome will be a reinforced JV relationship.

However, if the JV relationship faces a high level of uncertainty it may be difficult to foresee the effects of decisions made within a parent company on the JV relationship. Moreover, in such a situation, using the JV management control to counteract effects that weaken the JV relationship may have unintended consequences and lead to responses by the other JV parties which in turn affect the JV relationship. Such dynamic interactions between decisions made within a parent company, their intended and unintended effects, and the responses by other JV parties are more likely in JV relationships facing a high level of uncertainty. The outcome of such complex dynamic processes may eventually be a reinforced JV relationship, but the unintended effects could also cause tensions between the JV parties which cannot be solved. Then a termination of the JV relationship is likely.

2.2.4. *In sum*

We expect that the conditions discussed above could strengthen the effect of decisions made within a parent company on the JV relationship and create complex dynamic processes. However, if decisions made within a parent company change the parent company's strategic motives and thereby undermine the *raison d'être* of the JV relationship, such decisions will inherently weaken the relationship and most probably lead to its termination, irrespective of the three conditions described above.

2.3. *Theoretical framework of JV dynamics*

The starting point of the theoretical framework, which is depicted in Fig. 1, are the antecedents that lead to decisions within a parent company that affect the JV relationship. As indicated above, these antecedents can arise in three different areas, namely, within a parent company, within the JV relationship, and in the environment of the JV relationship (Yan and Zeng, 1999). In Section 2.1, we described various antecedents in these areas, the possible decisions of a parent company as a response to these antecedents, and their effects on the JV relationship. These effects could lead to changes in the level of behavioural uncertainty in the relationship between the JV parties. Such changes could enhance or damage the trustworthiness of personal relationships. Other effects could include changes in the strategic importance of the JV relationship for a parent

company. If the JV relationship becomes strategically more important for a parent company, it will probably put more effort into the relationship, and thereby cement the JV relationship (Inkpen 1998; Lunnan and Haugland, 2008). On the other hand, if the JV relationship becomes strategically less important for a parent company, it may lose interest in the JV relationship, and thereby weaken the JV relationship and probably lead to its termination.

Decisions made within a parent company could have effects which change the parent companies' strategic motives for establishing the JV relationship. If such a change disturbs the complementarity of or the compatibility between the different parent companies' strategic motives, it will weaken the JV relationship and probably lead to its termination (Beamish and Delios, 1997; Das and Teng, 2000b). If changes in a parent company's strategic motives undermine the *raison d'être* for the JV relationship it is unlikely that the effects of these changes can be counteracted using the JV management control. Other effects that weaken the JV relationship, but do not reduce the strategic importance of the JV relationship, could be counteracted using the JV management control (e.g., Li et al., 2013). If the parent companies are able to reinforce the JV relationship in this way, it could build trust between them (Vosselman and Van der Meer-Kooistra, 2009).

As discussed in Section 2.2, we expect that the effects of decisions made within a parent company on the JV relationship will be strengthened if a parent company exercises tight control over the JV and if it has a strong bargaining power. If the JV relationship faces a low level of uncertainty, it may be possible to anticipate the effects on the JV relationship and to use the JV management control to counteract effects that weaken the JV relationship. Therefore, in such a situation, the dynamic processes will be limited. However, if the JV relationship faces a high level of uncertainty, it will be more difficult to anticipate the effects on the JV relationship of decisions made within a parent company and to use the JV management control to counteract effects that weaken the JV relationship, or to foresee the consequences of using the JV management control in this way. In such circumstances, using the JV management control to counteract the effects that weaken the JV relationship could have unintended consequences, which themselves require additional responses. Such complex dynamic processes could eventually reinforce the JV relationship. However, if the level of uncertainty is high it could be difficult for the parent companies to take the necessary actions to reinforce the JV relationship and then these complex dynamic processes could lead to a termination of the JV relationship.

As set out in Sections 2.1 and 2.2, the role of the JV management control in JV dynamics could be threefold: (1) the JV management control does not fit in with the characteristics of the JV relationship and this mismatch could lead to dynamic processes (i.e., the mismatch of the JV management control is the cause of JV dynamics); hence, the JV management control needs to be changed such that a match with the characteristics of the JV relationship is achieved; (2) the tightness with which a parent company uses the JV management control could strengthen the

effects of its decisions on the JV relationship and thereby increase the complexity of the dynamic processes; and (3) the JV management control could be used to counteract effects that weaken the JV relationship.

3. Research methodology and case study design

In order to gain a more detailed understanding of how decisions made within a parent company can lead to JV dynamics, we conducted an in-depth case study of an international JV relationship located in a country in Southeast Asia. A European multinational (EP) and a local Asian company (AP) were the owners of this JV, which we call JV Asia. It was established in 1995 and terminated in 2003. As discussed earlier, whereas most studies of JV dynamics focus on the termination of JV relationships, we studied the dynamic processes *during* the life of JV Asia. In particular, we studied the JV dynamics that resulted from decisions made within one of the parent companies, namely EP.

According to [Ahrens and Chapman \(2006\)](#), a case study is a theoretical activity as it tries to position and interpret practical phenomena in order to contribute to theory. In line with this argument, our case study aims to further develop theory about how decisions made within a parent company can cause dynamic processes in a JV relationship and the role of the JV management control in these processes. On the basis of the existing literature we developed a theoretical framework (see Section 2), which we use to make sense of the dynamic processes we found in the case. From the perspective of one of the parent companies, EP, we collected data about these dynamic processes (see below for a detailed overview of the data sources). Interpreting these data allowed us to further refine and/or modify our theoretical framework ([Ryan et al., 2002](#)).

Our choice of this case and, in particular, studying it from the perspective of EP was based on two main reasons. First, as theoretical insights into the effects of decisions made within a parent company on JV dynamics are limited, we chose a case in which these effects were expected to be substantial. In the case of JV Asia, EP contributed technological

knowledge, the production equipment, ICT and reporting formats, and trained the JV staff. The JV site was a 'copy' of its European site. EP determined the JV's strategy and production activities, and tightly controlled the JV. Because of EP's crucial contributions it had a strong bargaining power. In addition, the JV relationship faced high levels of uncertainty. The huge distance in time and space between EP and the JV site, together with the cultural differences between EP and AP, were likely to create behavioural uncertainty in the co-operation between the JV parties. Therefore, decisions made within EP were expected to lead to JV dynamics. As these processes can be complex, our second reason for choosing this case was that we had good access to EP, which was essential for studying these complex processes.

The main instrument for gathering data was semi-structured interviews with the first JV managing director, the second JV managing director, the controller of EP's Business Unit responsible for the JV, the managing director of EP's Business Unit responsible for the JV, and the CEO and CFO of EP. The interviews were semi-structured because we wanted to explore whether the existing theoretical insights into JV dynamics could explain JV dynamics in the case. Nevertheless, in order to retain focus, the openness of the interviews was bounded by the research questions.

The interviews took place between November 1998 and December 2011 (see [Table 2](#)).

In total, we had 19 interviews, most of which took place in the headquarters and other locations of EP. Most of the interviews lasted one and a half to three hours. Four interviews were by telephone and aimed at clarifying specific issues discussed earlier. Most of the interviews were recorded and literally transcribed. We made notes of the other interviews and used them for drafting interview reports. All the interviewees received one or more interview reports. In this way, they could give feedback about misunderstandings and omissions.

In addition to the interviews, we collected written information, including annual reports and internal documents of EP about the background of the JV relationship. Furthermore, we had access to the overall business plan of

Table 2
Overview of the interviews.

Position interviewee	Date	Duration (h)
Controller of EP's BU responsible for the JV	19-11-1998	1.5
Managing director of EP's BU responsible for the JV	24-11-1998	1.5
Financial director of EP	27-11-1998	1
Controller/first managing director of JV Asia	9-12-1998	1.5
CEO of EP	7-1-1999	2
Financial director of EP	19-1-1999	0.5
Controller of EP's BU responsible for the JV	20-1-1999	0.5
Managing director of EP's BU responsible for the JV	27-1-1999	0.5
Controller/first managing director of JV Asia	21-9-1999	2
Controller/first managing director of JV Asia	12-9-2003	2
Controller/first managing director of JV Asia	10-10-2003	1
Controller/first managing director of JV Asia and Managing director of EP's BU responsible for the JV	6-4-2006	3
Controller/first managing director of JV Asia	1-6-2006	2.5
Managing director of EP's BU responsible for the JV	6-7-2006	2.5
Managing director of EP's BU responsible for the JV	3-11-2006	1.5
Second managing director of JV Asia	29-9-2011	3
Managing director of EP's BU responsible for the JV	26-10-2011	2
Managing director of EP's BU responsible for the JV	4-11-2011	1.5
Second managing director of JV Asia	19-12-2011	2.5

the JV, including the mission statement and the goals of the JV, the types of contracts and agreements, the topics addressed in the contracts and agreements, the time frame of establishing the JV's production facilities, and the parent companies' responsibilities for the different tasks related to the JV relationship. Moreover, we read a large number of articles published in regional and national newspapers dealing with developments within EP, changes in EP's organisational structure, and changes in governmental regulations (in most instances EU regulations).

To facilitate analysis and interpretation, we chronologically ordered all the data of the interviews, and internal reports and documents. We classified the data of the interviews by writing the concepts discussed in Section 2 in the margin of the interview reports. Furthermore, we examined all the data from the perspective of our theoretical framework. By so doing, we were able to identify the decisions that caused JV dynamics, the antecedents that led to these decisions, and the locations of these antecedents. Moreover, we were able to analyse the effects of these decisions, the influence of the conditions of tightness of control, bargaining power, and uncertainty on the effects of the decisions, EP's perceptions of the responses of AP to these effects, and EP's use of the JV management control to cope with JV dynamics and to counteract effects that weakened the JV relationship.

4. JV Asia

In this section, we will discuss examples of JV dynamics that occurred during the life of JV Asia and resulted from decisions made within EP. In these examples, we will examine EP's decisions, the antecedents that led to these decisions, and the resulting JV dynamics, including the use of the JV management control.

The structure of this section is as follows. To give some information about the context of the JV relationship, we start by presenting the background of JV Asia. Next, we describe and analyse the examples of JV dynamics resulting from decisions made within EP. In the description and analysis of the examples of JV dynamics we pay attention to how the conditions set out in our theoretical framework strengthened the effects of the decisions made within EP on the JV relationship and led to complex JV dynamics. To conclude, we briefly discuss JV Asia's termination.

4.1. Background of JV Asia

JV Asia was owned by two parent companies: EP and AP. EP produces intermediate products, and sells its products to (business) globally. EP's production activities were initially exclusively in Europe. However, in the early 1980s, it was confronted with governmental restrictions on production volume. Therefore, it started looking for alternative production locations. One region that seemed suitable was Southeast Asia, as plenty of raw materials were available, and at a price cheaper than in Europe. Moreover, in the early 1990s, EP's sales in Southeast Asia substantially increased. Therefore, by producing in Southeast Asia, transportation costs for Southeast Asian customers could be reduced and import duties avoided. Considering these opportunities,

in the 1990s, EP decided to establish a production site in Southeast Asia. However, given the differences between the European and the Southeast Asian context, EP realised the importance of establishing this production site jointly with a local partner. Having discussed this idea with a couple of potential Southeast Asian partners, it was eventually EP's agent in the country in Southeast Asia with whom EP came to an agreement. In 1996, EP and its agent AP signed the JV agreement establishing JV Asia.

Table 3 provides an overview of the key events during the life of JV Asia.

4.2. Examples of JV dynamics caused by decisions made within EP

Various decisions made within EP caused JV dynamics during the life of JV Asia. Below we will describe and analyse various examples of JV dynamics, including EP's decisions, their antecedents, the role of the JV management control, and the resulting dynamic processes in the JV relationship.

4.2.1. EP's parsimonious investments in JV management control

EP's decision to limit investments in the management control of the JV relationship at the beginning was influenced by a number of circumstances, which were related to both its internal characteristics and its institutional environment. EP is a producer's co-operative in which the owners or members (i.e., the producers of EP's raw material) have a strong influence on the decision-making of EP's central management. The main interests of the members were their own production activities in Europe. They were somewhat averse towards production activities abroad, as they considered them to be in competition with their own production activities. This aversion was strengthened by EP's difficult financial position caused by its weak position in the market and increasing competition in Europe. In addition, EP's high dependency on governmental regulations, which were in a state of flux and limited EP's operations, and decreasing subsidies, exacerbated EP's financial problems. As EP had no experience with operating a production site in the Southeast Asian country, it had decided to co-operate with a local partner, which had good relationships with the local authorities and customers, and knew the labour market and local norms and values. This co-operation decreased the level of environmental uncertainty related to setting up and operating a production site in the Southeast Asian country.

However, EP decided to be parsimonious in its investments in the JV management control. To reduce costs, EP's initial view was that the JV should be managed without expatriates and controlled by the Asia Pacific Region Sales Office. At the instigation of the, then, new corporate controller of EP, who had gained international experience in his former company, EP eventually decided to have an EP financial controller for the JV. But, to save on expat salary costs, EP did not immediately send the financial controller to the Southeast Asian country, he first spent six months located within EP in Europe.

During the first few months, both parent companies worked separately on the tasks that they had agreed: EP in

Table 3

Key events during the life of JV Asia.

1995	1996	1997	1999	2002	2003
EP and AP sign declaration of intent	EP and AP sign JV agreement Arrival of EP's financial controller in the Southeast Asian country	Start of the JV's operations	Arrival of EP's second JV managing director EP decides to stop the credit line of the JV's largest customer EP explores possibilities of diversification	Change in EP's organisational structure JV Asia brings the additional production capacity into use EP investigates possibilities of local raw materials production activities	AP sells its JV shares to EP

Europe and AP in the Southeast Asian country. As a result, there was little exchange of information between EP and AP, and face-to-face contacts were impossible. While EP, with its technical and engineering orientation, carried out its preparations strictly according to the agreed time schedule, it did not notice that the activities in the Southeast Asian country progressed less quickly. Although contractually agreed, AP did not initially appoint a JV managing director, and it took them five months to find a production manager who then still needed to be trained.

AP generally adopted a wait-and-see attitude, as it saw that EP was taking the initiative. AP's attitude seemed to be due to EP's dominant power position. As EP's financial controller said:

AP was to some extent overwhelmed by the size and reputation of EP.

The physical distance between EP and AP made it impossible for them to interact with each other, to discuss actions to be taken face-to-face, and hence to build personal relationships based upon trust. Whereas, according to EP's financial controller, "personal relationships and trust are highly crucial in this Southeast Asian country".

EP's decision not to send its JV financial controller immediately to the Southeast Asian country had serious consequences. This became clear when six months later EP's financial controller eventually arrived at the JV site. He found that, in contrast to EP's expectations, there had been hardly any progress. All the paperwork still had to be done and, in particular, licences which had not been obtained caused considerable delay, as they were needed for the signing of contracts; e.g., for the purchase of land and the import of machines. As the JV financial controller reflected:

In fact, at a certain time, we were just waiting for the completion of these documents.

From a management control perspective, the above situation can be described as a mismatch. Differences in both the parental cultural backgrounds and the parental contributions to the JV—EP contributed production technology and ICT and AP contributed knowledge of the local market, and local norms and values, as well as their relationships with governmental authorities—required regular face-to-face consultations and personnel and cultural controls. Moreover, as pointed out by Yan and Gray (2001), the culture in Southeast Asia is relationship- and network-oriented. AP therefore expected a relationship based on trust. However, the physical distance between EP and AP prevented

face-to-face communication between the parties and the development of personal relationships based upon trust. In fact, by mainly focusing on EP's own activities to be executed and neglecting the atmosphere of the JV relationship, the JV management control used by EP did not match the characteristics of the JV relationship.

In short, antecedents within EP and in the environment of EP, namely its co-operative structure (i.e., producer's co-operative, the members of which were averse to establishing JV Asia), its bad financial situation, and its institutional environment (i.e., changing governmental regulations and decreasing subsidies), led to EP's decision to limit its investments in JV management control. As a result, personal relationships between the key individuals involved in the JV relationship could not be built, and the co-ordination of the parent companies' contributions to the JV faced difficulties.

4.2.2. *Adjusting the JV management control*

As described above, the JV did not go well at the start, and we suggest that this was because the JV management control did not match the characteristics of the JV relationship. However, when EP's financial controller eventually arrived at the JV site, the situation changed. Following his arrival, communication with AP became much easier, and he became soon aware of EP's shortcomings in co-operating with AP and he realised that face-to-face contacts should be crucial for the adequate exchange of information between EP and AP and for EP to become aware of AP's behaviour and the local norms and values, such as the importance of personal relationships built upon trust. As EP's financial controller reflected on this:

At the outset, [before his arrival], the exchange of information between EP's and AP's representatives involved in the JV relationship were not well organised; in particular, face-to-face contacts were not possible. It would have been much better if representatives of both EP and AP had been present at the location from the beginning. Then, things could have been organised more quickly, and one would have become acquainted with each other. As a result, personal relationships and trust between EP's and AP's representatives would have been created more easily.

To increase face-to-face contacts between EP and AP, EP's financial controller undertook various controls. For example, he organised regular face-to-face meetings between managers of EP's Asia Pacific Region Sales Office and AP's managers in which they discussed the JV's sales.

He also stimulated managers of the Asia Pacific Region Sales Office and managers of AP to visit customers together.

Furthermore, he put effort into getting AP actively involved in the JV's activities, for instance, by regularly inviting AP's managers to make product presentations. EP's financial controller regarded these personal interactions as crucial for cementing the relationship and creating a more open exchange of information and expertise.

An example illustrating EP's awareness of the importance of paying attention to the local norms and values was the ceremonial opening of the production site. To enhance AP's commitment, EP left the organisation of the event to AP. This opening had to take place on a day that the stars and the ghosts were well disposed. To please the ghosts, ceremonial dances were performed throughout the event. EP knew that AP would attach great importance to this, so, as EP's managing director of the Business Unit responsible for the JV said:

We did not say to AP that, because we have a majority equity share, we were going to organise it.

To conclude, through direct interactions and learning about AP's norms and values about how to interact with AP's senior management, EP decreased its behavioural uncertainty and greatly improved its co-operation with AP. EP's financial controller learnt about the importance of face-to-face contacts, personal relationships based upon trust, and paying attention to the local norms and values. As a result, he decided to invest in the JV relationship and put in place personnel and cultural controls by organising regular face-to-face meetings and actively involving AP in decision-making, and he emphasised that the JV needed AP's knowledge and expertise. In this way, he downplayed EP's dominant power position. According to EP's financial controller, the above controls smoothed the co-operation and resulted in trust between EP's and AP's representatives. As EP's Business Unit managing director responsible for the JV concluded:

Now it is obvious that the investment [of sending EP's financial controller to the Southeast Asian country six months earlier] would have recouped itself.

The above adjustments in the JV management control cemented the JV relationship. The mismatch between the JV management control and the characteristics of the JV relationship was resolved.

4.2.3. *EP's decision to replace the JV managing director*

As referred to in the first example, AP did not find a JV managing director for the JV. Therefore, it was eventually decided to appoint EP's financial controller as the managing director of the JV. As discussed above, by establishing various controls, he had cemented the JV relationship. Therefore, he was, as he expressed it himself, more or less naturally regarded as the JV managing director and this was eventually formalised. However, after two years, EP decided to replace him by a part-time expatriate. Various antecedents were responsible for this decision. First of all, as we will discuss in more detail below, throughout the Asian financial crisis EP was considering expanding

the JV's production activities. Therefore, they wanted a JV managing director with a technical background. EP's first JV managing director had a financial background, and this was particularly helpful in establishing the JV, but he did not have a technical background. In addition, EP's bad financial situation and its members' aversion to the investment in JV Asia played a pivotal role in this decision. Once the JV's activities were successfully set up, EP questioned whether, from a cost perspective, a full-time expatriate at the JV site was still justified, given the relatively small size of the activities. Hence, EP's first JV managing director was succeeded by a senior EP manager with a technical background, who was to manage the JV for 20% of his time. In addition to managing the JV, he was to investigate the possibilities of EP establishing new raw materials production activities in Asia. Although the latter activities were his main job, he initially was located at the JV site and spent a substantial part of his time on the JV relationship.

The new JV managing director was of the opinion that in order to earn AP's respect he should demonstrate his power. This was illustrated by a number of examples. When he arrived in Asia, he noticed that the CEO of AP avoided him during the first few months. However, EP's JV managing director did not take the initiative of welcoming AP's CEO. According to EP's JV managing director, AP's CEO should take the initiative of welcoming him as he was a representative of the majority shareholder. If he took the initiative of welcoming AP's CEO, he would show his weakness and lose AP's respect. Only after six months, AP's CEO introduced himself to EP's JV managing director.

Following the arrival of the new JV managing director, the JV's executive board consisted of two persons, EP's new JV managing director and a representative of AP. As the JV had to deal with Asian parties, AP's representative formally became the JV's president and EP's JV managing director formally became the JV's vice-president. However, as EP was the majority equity holder, EP's JV managing director insisted that he should have the casting vote if the JV's executive board was tied. The casting vote of EP's JV managing director was formalised, even though AP did not like this formalisation. This meant that EP's JV managing director de facto had presidential power. In addition to the JV's executive board, a local production manager, who was suggested by AP at the start of the JV, was appointed as the general plant manager. In contrast to the earlier situation in which the executive board authorised all payments, on the proposal of EP's JV managing director, it was decided that the newly appointed JV's plant manager could authorise payments. EP's JV managing director, however, became aware that AP's representative on the executive board continued to check the payments made by the JV's plant manager, and he instructed him to stop this practice.

EP's new JV managing director stated that through his dominant leadership style he earned AP's respect. However, he also admitted that, a few years later, when he retired and left the JV, various people from AP "heaved a sigh of relief". According to EP's Business Unit managing director responsible for the JV and EP's first JV managing director, EP's second JV managing director's

demonstration of power damaged relationships with AP. EP's first JV managing director was of the opinion that:

You have to do things together. Although it was clear that we [EP] were in a dominant position, power should be exercised very carefully to avoid disturbing the relationship.

In the view of EP's Business Unit managing director responsible for the JV, it was also not helpful that EP's second managing director was only appointed for 20% of his time. The part-time appointment gave AP the impression that EP was no longer really interested in the JV relationship. As he reflected:

It gave AP the idea they were on a sinking ship.

EP's Business Unit managing director responsible for the JV and EP's first JV managing director, therefore, concluded that the dominant leadership style and the part-time appointment of EP's second JV managing director damaged the trust between EP and AP, which had been built up over time.

However, as discussed earlier, the characteristics of the JV relationship required face-to-face contacts, an open exchange of information and experience, and a relationship based upon trust (see also Boersma et al., 2003; Inkpen and Currall, 1998; Lunnan and Haugland, 2008; Luo, 2001). Therefore, EP's decision to replace the first JV managing director by a part-time JV managing director who exercised EP's power, again created a mismatch between the JV management control and the characteristics of the JV relationship, resulting in a weakened JV relationship.

The question is: why had EP forgotten the learning experiences that initially had transformed JV Asia into a successful venture?² EP's first JV managing director learned that it was necessary to build and maintain personal relationships, to involve AP's representatives in decision-making, and to pay attention to local norms and values, and this had been crucial for the JV's success. Despite these earlier lessons, as the first JV managing director was replaced by a part-time managing director known for his dominant leadership style, EP's central management was evidently not aware of the importance of face-to-face contacts, maintaining personal relationships and involving AP in decision-making. It prioritised the financial aspects of the relationship. As mentioned above, EP's bad financial position and the influence of EP's members, who had an aversion to the investments in JV Asia, were the reasons for replacing the first full-time JV managing director by a part-time one. However, by only focusing on short-term cost savings and not recognising the benefits of having a full-time JV managing director, which until then had outweighed the cost savings, EP's central management's decision damaged the conditions necessary for successful collaboration in the longer term. The decision changed the match between the characteristics of the JV relationship and the JV management control into a mismatch.

Furthermore, although initiatives were taken to set up a knowledge pool, consisting of EP's experiences and lessons learned in foreign countries, and ideas of developing a pool of young managers for EP's international operations, those initiatives and ideas were stopped because of EP's weak financial situation. Such a pool of managers with international experiences could have supported EP in its strategy of expanding its international activities. As these initiatives and ideas were stopped, only EP's representatives who were directly involved in JV Asia had learned how to co-operate with local partners, but these lessons learned were not disseminated to the central management and EP's members. As Huber (1991) argues, as this knowledge had not been distributed to the organisation's decision-makers it did not become codified knowledge and included in the organisational memory.

EP's Business Unit managing director responsible for the JV was of the opinion that the "macho culture" of Western managers was partly responsible for EP not learning from its experiences in JV Asia. He thought that managers in EP considered consultations with colleagues to be a sign of weakness. As he put it:

People prefer to bump into the wall ten times. They don't want to recognise that they don't know.

From the above, we conclude that due to EP's difficult financial position, its members' aversion to the investment in the Southeast Asian country, and EP's "macho culture" the learning experiences within EP, which initially had transformed JV Asia into a successful venture, were not disseminated to EP's central management and EP's members, but lost over time.

EP's decision to replace the first JV managing director demonstrates how uncertainty can strengthen the effect of decisions made within a parent company on the JV relationship, as set out in our theoretical framework. Due to EP's central management's unfamiliarity with the JV's local context, the level of uncertainty within the JV relationship was high. Consequently, EP's central management had difficulties in (fully) foreseeing the effects of its decisions on the relationship with AP. It did not realise the importance of appointing a JV managing director with a co-operative attitude. By replacing the first JV managing director by an EP manager who was known for his dominant leadership style, this strongly damaged trust between EP and AP.

4.2.4. *EP's decision to stop the credit line of JV Asia's largest customer*

The Asian financial crisis at the end of the 1990s led to financial problems with the JV's largest customer. AP suggested helping the customer by giving it some respite. According to the first JV managing director, in the Southeast Asian country this is not a point of discussion. As he said:

In this country you are friends, in particular in difficult times.

EP, however, did not give any consideration to the financial problems of this customer and did not want to follow AP's suggestion and stopped the customer's credit line. This

² We define a JV as a success if the parent companies' strategic motives to establish the JV are in the process of being achieved (see also Yan and Gray, 1994).

decision damaged the relationship between EP and AP. It demonstrates how bargaining power and tightness of JV management control can stimulate the emergence of JV dynamics, as discussed in our theoretical framework. Due to EP's strong bargaining power and its tight involvement in issues regarding JV Asia's customers, EP stopped the credit line of JV Asia's largest customer. This decision weakened the JV relationship.

4.2.5. *EP's decision to expand JV Asia's production capacity*

The Asian financial crisis and more specifically the resulting financial problems of JV Asia's largest customer, as discussed above, made it clear that JV Asia was vulnerable. Due to EP's difficult financial situation and EP's members' aversion to investments in JV Asia, the original investment was limited. The production facility produced only a few types of products, and was dependent on one large customer. Due to the Asian financial crisis, this customer ran into trouble and put the JV in an awkward position. This was the reason that in 1999 EP explored the possibilities of diversification by manufacturing a greater range of products. Such a diversification would require an expansion of the JV's production capacity. However, while EP wanted to use expensive high-quality Western technology for this expansion, AP was in favour of using less advanced and cheaper technology. However, EP's central management insisted on additional investment in Western technology. This exercise of power further damaged relationships with AP, and AP eventually decided not to be involved in this additional investment. For EP's Business Unit managing director responsible for the JV this was quite understandable:

Given the personal relationships at that time, in their position I wouldn't have made a new investment either.

EP's exercise of power also illustrates the role of bargaining power in stimulating JV dynamics, as discussed in our theoretical framework. Due to EP's strong bargaining power, EP could impose its will and decide to use Western technology without taking into account AP's views and interests. This exercise of power resulted into a weakening of the JV relationship. [Yan and Gray \(1994, 2001\)](#) also pointed to such an effect on the relationship between the parent companies caused by a parent company using its strong bargaining power.

4.2.6. *EP's decision to change its organisational structure*

To optimise its production chain and to rationalise its activities, in 2002 EP decided to transform its regional structure into a matrix structure. This decision was taken foremost to improve EP's financial performance (annual report, 2000/2001). In taking this decision, EP did not realise it would have an impact on JV Asia. However, the decision had unintended effects on EP's relationship with AP. In the matrix structure, various product groups were distinguished. The managing director of each product group was located in Europe, but responsible for the global activities of his product group. In the previous regional structure, AP only had to deal with one regional manager, i.e., the managing director of the Asia Pacific Region

Sales Office, with whom AP's representatives had built a relationship based upon trust. In the matrix structure, however, AP had to deal with several product group managing directors, located in Europe, who had little experience in co-operating with Southeast Asian partners. Moreover, the product group managing directors often had different policies, and this led to confusion for AP. Therefore, according to EP's first JV managing director, AP faced difficulties in building personal relationships with the product group managing directors, while such relationships are crucial in the Southeast Asian country. However, as EP did not recognise these effects, no measures were taken to counteract them. Hence, EP's decision to change its organisational structure, without recognising the problems faced by AP further weakened the JV relationship. A similar kind of dynamics is also discussed in the literature. [Doz \(1996\)](#) and [Van der Meer-Kooistra and Kamminga \(2010\)](#) also point to how unclear interfaces between co-operating parties complicate decision-making, and lead to frustration.

4.2.7. *EP's investigations for establishing local raw materials production activities*

Another attempt to make the JV less vulnerable was EP's decision to explore the possibilities of co-operating with local companies that could produce raw materials for the JV. A new team was established to conduct this investigation. EP did not inform AP about this decision and AP learnt about the new team's activities from the local newspaper. In the Southeast Asian country this is not regarded as an acceptable practice; co-operating partners are expected to inform each other about such activities. According to EP's Business Unit manager responsible for the JV, AP felt it had been by-passed and consequently became unsettled, especially as this was not the first time it had been confronted by such a situation. For example, during the period when EP was searching for a local partner for JV Asia, it had talked to a number of parties, before entering into it with AP, which had been EP's agent in the Southeast Asian country since the beginning of the 1980s. AP also heard about these talks from other sources. At that time intensive discussions between EP and AP were required to clear the air. According to EP's Business Unit managing director responsible for the JV, EP's decision to once again bypass AP further damaged the relationship.

4.3. *The end of the JV relationship*

After a difficult start JV Asia was transformed into a stable venture with promising expectations. However, after that successful period, as discussed above, a series of antecedents led to decisions made within EP that damaged trust between EP and AP, and consequently weakened the JV relationship, as EP did not consider AP's views and interests. Although EP's decision to appoint a new JV managing director, who was aware of the local norms and values, cemented the relationship with AP to some extent, it was too late. Having decided not to take part in the new investments in JV Asia, AP finally decided to sell its JV's shares to EP and to leave the JV relationship. As a result, in 2003 the JV relationship was terminated and JV Asia became a

wholly owned subsidiary of EP (see Table 3). However, AP remained EP's agent in the Southeast Asian country.

5. Discussion

After having described and analysed various decisions made within EP during the life of JV Asia and their effects on the JV relationship, in this section we will discuss the case findings and, based on these findings, elaborate on the theoretical contributions of our study and revise our initial theoretical framework. In Section 5.1, we will discuss the case findings and relate them to the initial theoretical framework (see Fig. 1). In the discussion we follow the structure of this framework. We start by looking at the antecedents of decisions made within EP which caused dynamic processes in JV Asia. Then we discuss the decisions made within EP and see how the effects of these decisions on the JV relationship were strengthened by (a combination of) the conditions mentioned in the theoretical framework. In addition, we elaborate on the roles of the JV management control in the dynamic processes found in the case. In Section 5.2, derived from the case findings, we will discuss the theoretical contributions of our study and present a revised theoretical framework, which is depicted in Fig. 2.

5.1. Case findings

5.1.1. Antecedents

The case of JV Asia illustrates that decisions made within a parent company, in the case EP, can create (complex) dynamic processes in a JV relationship. The case points to various antecedents which led to decisions made within EP. These antecedents were located within EP (e.g., EP's owners' aversion to production activities in Southeast Asia; EP's difficult financial situation; key individuals leaving or changing career within EP), within the JV relationship (e.g., changes in interactions between the local key individuals; different interests of the parent companies; AP's wait-and-see attitude), in the

environment of the JV relationship (e.g., Asian financial crisis; financial problems of the main customer), and in the environment of EP (e.g., changes in EU regulations and subsidies; increasing competition in Europe). The case confirms Yan and Zeng's (1999) claim about the areas within which the antecedents of the decisions could be located which may lead to JV dynamics; i.e., antecedents within a parent company, within the JV relationship, and in the environment of the JV relationship. Moreover, the case shows that antecedents located in the environment of EP (e.g., the market required a product focus rather than a regional focus) also led to decisions (e.g., change of EP's organisational structure) that caused JV dynamics.

The case indicates that in most instances of JV dynamics it was a combination of different antecedents that led to the decisions made within EP. In some instances, it was primarily a combination of antecedents located within one area. For example, the decision to replace the first full-time JV managing director by a part-time JV managing director was influenced by a combination of antecedents located within EP; i.e., EP's owners' aversion to production activities in Southeast Asia; EP's difficult financial situation; and EP's central management's failure to learn lessons from previous experiences. In other instances, it was a combination of antecedents located in various areas. For example, the decision to expand JV Asia's production capacity and to use high-quality technology was influenced by antecedents located in the environment of JV Asia (i.e., Asian financial crisis, and financial problems of the JV's main customer), antecedents located within EP (i.e., EP's preference for using high-quality technology), and antecedents located within the JV relationship (i.e., AP's interests in the JV relationship differing from those of EP).

In Section 2.1, we expected that a parent company can more easily influence the effects of decisions that have their antecedents within its own company rather than within the JV relationship or within the environment of the JV relationship. In the case, however, EP's central management could hardly influence the effects of decisions that

Fig. 2. Revised theoretical framework of the effects of decisions made within a parent company on JV dynamics.

had their antecedents within EP; for example, the decision of EP's central management to appoint a second JV managing director who was to manage the JV for 20% of his time and, in addition, to appoint to this position an EP manager known for his dominant leadership style. We see two reasons for this situation. First, as EP is a producer's co-operative, in its decision-making EP's central management is dependent on the owners or members of EP. The case indicates that EP's members were somewhat averse to production activities outside Europe. EP's difficult financial situation made EP's members even more averse to investments in JV Asia. In its decision-making aimed at JV Asia, EP's central management had to pay attention to this aversion of EP's members and, hence, it had to accept the effects of its decisions on the JV relationship. Second, EP's central management was not well informed about the importance of paying attention to the social aspects of its co-operation with AP. As we will discuss in more detail below, the lessons learned by EP's representatives directly involved in the JV relationship (i.e., EP's financial controller who later became the first JV managing director, and EP's responsible Business Unit managing director) were not disseminated to EP's central management. As a result, EP's central management was not aware of the effects of its decisions on the relationship between the JV parties.

5.1.2. *Decisions, conditions and effects*

The case shows that the high level of uncertainty within the JV relationship strengthened the effects of EP's decisions and created complex dynamic processes. The high level of uncertainty was caused by EP's central management's lack of knowledge about how to co-operate with its local partner and how to jointly run JV Asia and make it a success. Although the first JV managing director had learned how to co-operate with the local partner, these lessons were not disseminated within EP. The case indicates that EP's central management was unwilling to invest in setting up a knowledge pool in which lessons learned from EP's operations outside Europe could be stored and, subsequently, disseminated. Hence, EP's central management did not adequately understand the importance of the social aspects of the relationship, and this led to its inability to foresee the effects of its decisions on the JV relationship. Doz (1996) speaks of the need for "behavioural learning" in alliances (Doz, 1996, 70), i.e., learning how to deal with the partner's behaviour and expectations. This lack of behavioural learning could partly be traced back to EP's poor financial situation and to its members' interests which conflicted with those of JV Asia. Because of EP's financial situation EP's central management focused on short-term cost savings, whereas making JV Asia a success required a more long-term perspective and specific attention to building a trusting relationship with the local partner. Furthermore, because of EP's legal structure as a producer's co-operative, which gave its members decision-making power, EP's central management focused much more on its European activities, as they were the members' priority.

Because of EP's central management's focus on Europe together with its focus on short-term cost savings, EP's central management was not willing to devote much time

to JV Asia. This resulted in decisions that had unforeseen effects on the JV relationship. Doz (1996) claims that successful relationships are characterised by learning cycles that cumulate over time. These cycles consist of processes of learning, re-evaluation, and readjustment, in which the parties improve the initial conditions of their relationship and make irreversible commitments, justifying further efforts to make the relationship a success. "Learning cycles thus fed into sequences of growing cooperation between the partners" (, 64). In a similar way, Inkpen and Currall (2004) argue that learning about a partner facilitates relational understanding and the development of relational-specific assets, such as knowledge of the partners' procedures and norms and values. Such learning can provide a foundation for developing trust. We saw how such processes of learning in the first phase of the JV relationship contributed to a trusting relationship and the success of JV Asia. However, these learning experiences were held locally and did not become part of the organisational memory of EP as a whole (Huber, 1991), and hence they disappeared. After the first JV managing director left JV Asia, the second JV managing director made decisions without paying any attention to personal relationships and the norms and values of the partner. In addition, EP (i.e., the second JV managing director as well as EP's central management) took decisions without recognising AP's views and interests in response to unforeseen external and internal developments, such as the Asian financial crisis, the financial problems of JV Asia's main customer, and the increasing vulnerability of JV Asia. In addition, EP took decisions aimed at its own company, such as the change of its organisational structure, without being aware of their effects on the JV relationship. These decisions, whether aimed at the JV or at EP's own company, damaged AP's trust in EP and, as Inkpen and Currall (2004) claim: "If trust is low and there are minimal investments in relationship assets, conflicts will often result in a risk assessment that leads to a decision that termination is the best option" (, 596). This is what we saw in JV Asia.

The high level of uncertainty within the JV relationship caused by EP's central management's lack of knowledge about the importance of the social aspects of the JV relationship, in combination with EP's tight control of JV Asia and its strong bargaining power, created complex dynamic processes. It was the combination of these conditions that strengthened the effects of EP's decisions on JV Asia's strategy and activities as well as its relationship with AP.

5.1.3. *JV management control*

The case illustrates that if the JV management control does not match the characteristics of the JV relationship, this mismatch affects the JV relationship. At the start of the JV relationship, EP's investments in JV management control were very parsimonious. EP focused the JV management control on the technical aspects of the co-operation and did not pay any attention to the social aspects. But, once EP's financial controller arrived at the JV site, he became aware of the importance of personal relationships built upon trust, exchanging information in face-to-face contacts, and paying attention to the local norms and values. He decided to set up social and cultural controls, which

improved the co-ordination of the contributions of EP and AP to the JV and stimulated the building of trustworthy personal relationships between EP's and AP's representatives involved in the JV relationship. By changing the JV management control and turning a mismatch into a match, EP's financial controller, who later became the first JV managing director, created the conditions for a successful collaboration.

However, over time, EP appointed a new JV managing director who, because of his dominant leadership style, was not able to develop personal relationships with AP's representatives. In addition, EP made various decisions without recognising AP's views and interests in response to unexpected environmental developments in the South-east Asian country. Moreover, EP changed its organisational structure in such a way that AP had to deal with different product group managing directors who were located in Europe and had little experience in co-operating with AP. This hampered the parties in effectively communicating with each other. These decisions damaged trust between the parties and weakened the JV relationship. In fact, the attitude of the second JV managing director and the various decisions of EP's central management "locked the partners quickly into a repetitive pattern of unsuccessful interactions" (Doz, 1996, 70). Although EP tried to reinforce the relationship by replacing the second JV managing director, this replacement came too late to solve the badly deteriorated relationship. Hence, the JV management control could no longer play a reinforcing role.

The case reveals that especially the attitude of the key individuals, who represent the parent companies and co-operate with each other on a daily basis, is crucial (see also Boersma et al., 2003; Inkpen and Currall, 1998; Lunnan and Haugland, 2008; Luo, 2001). These key individuals have to be able to develop personal relationships and to learn in concert "about the environment, the task at hand, each other and how to work together, their respective skills, and their motives" (Doz 1996, 70). As long as such learning processes take place, the key individuals will be able to successfully collaborate by using the JV management control. We saw this in the first phase of the JV relationship. However, in the course of time the lessons learned about how to manage and control a JV relationship between partners with a different (technological) knowledge and cultural background had been lost and this resulted in a loss of trust between the key individuals of EP and AP.

In Section 2.3 we have pointed out that JV management control can play three roles in JV dynamics. In the case we see that a mismatch of the JV management control with the characteristics of the JV relationship leads to JV dynamics (see the first example of JV dynamics, described in Section 4.2.1: EP's parsimonious investments in JV management control). By changing the JV management control EP was able to solve the mismatch and to improve the co-operation with AP.

In addition, the case indicates that EP's tight control of the JV strengthened the effects of its decisions on the JV relationship. For example, in response to environmental developments (i.e., the Asian financial crisis leading to financial problems with the JV's largest customer) EP decided to stop the credit line of the JV's largest customer.

Due to EP's tight control of the JV's activities it was able to take this decision, even though AP wanted to give the customer some respite. EP's decision damaged trust between EP and AP and weakened the JV relationship. Despite the weakening of the relationship EP did not try to reinforce the relationship. On the contrary, EP continued to take decisions without paying attention to AP's views and interests. See, for example, EP's decision to expand the production capacity and to use high-quality technology for the new production facilities. Due to EP's tight control of the JV's activities in combination with its strong bargaining power EP was able to change the JV's strategy and to determine the nature of the JV's investments.

The case does not show examples of the third role of JV management control, i.e. the use of JV management control to counteract effects of a parent company's decision that weaken the JV relationship. Instead, the case shows that the relationship between the parties was cemented by using the JV management control. After the first JV managing director had put in place the improved JV management control, the parties were able to collaborate effectively and make the JV a success. However, after his replacement the JV relationship weakened. The case reveals that EP did not use the JV management control to counteract the weakening of the JV relationship. Instead, EP continued to take decisions that further weakened the JV relationship. When EP eventually used the JV management control – it replaced the second JV managing director with an EP representative with a co-operative leadership style – this was too late to solve the very weakened relationship.

5.2. Theoretical contributions and revised theoretical framework

The case findings discussed above deepen our understanding of how decisions made within a parent company can create JV dynamics and what the role of the JV management control is in these dynamics. Moreover, they enable us to revise our initial theoretical framework. As this framework is based on the literature on JV dynamics so far, the revisions indicate the theoretical contributions of our study to previous research. Below, we will discuss the various contributions of our study.

First, the case findings show that in addition to antecedents located within a parent company, within the JV relationship and in the environment of the JV relationship, antecedents located in the environment of a parent company can create JV dynamics.

Second, the case findings indicate that both decisions made within a parent company that were aimed at the JV relationship (in the case, for example, replacing its representatives in the JV management) and decisions made within a parent company that were aimed at the parent company itself (in the case, for example, changing EP's organisational structure) can have unintended effects on the JV relationship. Although decisions that are aimed at the JV relationship are intended to affect the JV relationship, they can easily have unintended effects, especially when there is behavioural uncertainty within the JV relationship. These unintended effects can damage trust between the parties and weaken the JV relationship. If decisions that

are aimed at a parent company's own organisation unintentionally have effects on the JV relationship due to the decision-makers' focus on their own company, these effects will become clear to them only rather slowly. However, without being aware of these effects, they can weaken the relationship. Hence, even though a parent company's decisions are aimed at its own company, these decisions can affect the JV relationship and thereby cause dynamic processes.

Third, the case findings indicate that if a parent company's decision-makers do not have much experience with previous JV relationships and do not learn how to co-operate with the partner, it is likely that they will not be aware of unintended effects of their decisions, whether aimed at the JV relationship or at their own company. This can easily lead to complex dynamic processes, especially when the parent company tightly controls the JV and has more bargaining power. The parent company's responses to the unintended effects may again have unintended effects, as the parent company has difficulties in overseeing the effects of its decisions. Such a chain of effects may create tensions between the parties and thereby worsen their co-operation. In addition, the case findings show that the leadership style of managers who are directly involved in a JV relationship plays a crucial role in building personal relationships based upon trust. However, the manager's leadership style can also prevent the building of good personal relationships or damage a trusting relationship. We conclude that specific features of a parent company's decision-makers, including its key personnel directly involved in the JV relationship, can strengthen the effects of a parent company's decisions on the JV relationship.

Fourth, the case findings point to the importance of establishing a univocal decision-making and communication structure between the parent companies. If such a structure is lacking the parties cannot effectively communicate with each other. This can create uncertainty within the JV relationship and hinder the development of a trusting relationship. In such a situation, a parent company's decisions can easily have unintended effects and lead to JV dynamics.

Fifth, the case findings underline [Yan and Zeng's \(1999\)](#) and [Beamish and Lupton's \(2009\)](#) claim that dynamic processes can contribute to the success of a JV relationship and are not synonymous with failure.

Finally, the case findings show the various roles of the JV management control in JV dynamics. One role is that the JV management control can create JV dynamics if it does not match the characteristics of the JV relationship. A second role is that a tight use of the JV management control can create complex JV dynamics. A third role is that the JV management control can be used to successfully cope with JV dynamics and thereby cement the JV relationship. However, the case findings also show the opposite of this role of the JV management control: in a situation of JV dynamics, if the JV management control is not used to counteract the effects of these dynamics, the JV relationship can weaken.

Now we have discussed the theoretical contributions of our study, we can incorporate them in our initial theoretical framework. [Fig. 2](#) presents the revised theoretical framework.

6. Concluding remarks, limitations and future research directions

This study has examined dynamic processes in JV relationships caused by decisions made within one of the parent companies. It has focused on dynamic processes during the life of JV relationships. [Yan and Zeng \(1999\)](#) and later [Beamish and Lupton \(2009\)](#) pointed out that most studies of JV dynamics focused on the termination of JV relationships and did not investigate dynamic processes during the life of JV relationships. They concluded that this static approach to JV dynamics has resulted in inconsistent empirical findings. They assume that JV dynamics is not synonymous with failure but that JV dynamics could also cement a JV relationship. Both [Yan and Zeng \(1999\)](#) and [Beamish and Lupton \(2009\)](#) argued that, as these studies relied on secondary data and surveys, they could not achieve the insights that can be acquired by studying processes over time. Therefore, we have studied JV dynamics by using the case study methodology and taking a longitudinal approach, which has enabled us to look at dynamic processes during the life of a JV relationship.

Whereas the literature has mainly discussed JV dynamics caused by environmental developments and developments inside the JV itself ([Yan and Zeng, 1999](#); [Kamminga and Van der Meer-Kooistra, 2007](#)), we have focused our study on JV dynamics caused by decisions made within one of the parent companies. Moreover, by studying the antecedents of a parent company's decisions we have been able to gain an in-depth insight into how antecedents within the parent company, within the JV relationship, in the environment of the JV relationship, and in the environment of the parent company, led to decisions made within the parent company, and how these decisions affected the JV relationship and created JV dynamics.

By taking a long-term perspective and investigating dynamic processes as well as the outcomes of these processes, our study demonstrates that dynamic processes can cement a JV relationship, as suggested by [Yan and Zeng \(1999\)](#) and [Beamish and Lupton \(2009\)](#). Our long-term perspective has also enabled us to reveal how JV dynamics become complex. Furthermore, our long-term perspective has allowed us to study the various roles the JV management control can play in the dynamic processes.

Studying one case has some limitations. Although the case has provided an in-depth insight into the antecedents that led to decisions within one of the parent companies and how these decisions created dynamic processes in the JV relationship, and into the role of the JV management control in these processes, we are aware that other cases could bring to the fore other antecedents and other decisions creating dynamic processes. As the phenomenon of JV dynamics is multifaceted, identifying its characteristics will need more in-depth research. Therefore, more cases are needed to increase our understanding of JV dynamics caused by decisions made within the parent companies. We are especially interested in cases of JV relationships with different characteristics, such as JV relationships in which the parent companies have a balanced bargaining power and have built a trusting relationship, or JV relationships in which the parent companies stay at a distance and

the JV management operate rather autonomously. What dynamic processes can be found in such JV relationships? What effects do the parent companies' decisions have if they stay at a distance? Such studies will help us to better understand how parent companies renew and reproduce their relationship over time.

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