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Abstract

Joint ventures between the United States and China have increased dramatically since normalization of relationships resulting in China's Open Door Policy. Despite their increase, however, recent data indicate mixed levels of satisfaction with existing Sino-U.S. joint ventures. We identify here the major impediments to successful joint venture operation. We begin our analysis by describing a Sino-U.S. joint venture process model which differs significantly from other domestic and international joint venture models. We then array the impediments to that process into contextual, processual and operational impediments; identify key success factors; and conclude with mechanisms for addressing the impediments. We believe this is the first attempt at mapping the Sino-U.S. joint venture process, which thereby sets the stage for systematic prescriptive research into this growing phenomenon.

IMPEDIMENTS TO THE SINO-U.S. JOINT VENTURE PROCESS

Introduction

Reports that China would be willing to accept foreign direct investment began circulating as early as mid-1978, and in late 1978, China and the U.S. normalized relations. Foreign anticipation mounted as it became widely known that the Chinese were drafting joint venture legislation. On July 1, 1979, "The Law on Joint Ventures Using Chinese and Foreign Investment" was adopted. "Ten months later . . . foreign direct investment in China became a reality" (Ho and Huenemann, 1984:73). China's doors were now open to U.S. trade and investment after a 23-year freeze (Joseph, 1982).

With the Open Door policy, China has aggressively sought "to import modern industrial technology and learn new marketing skills and managerial know-how" that would allow them to develop their economy by the year 2000 (Ho and Huenemann, 1984). In seeking both light and heavy industry-related technologies, the Chinese have entered into many different forms of cooperation with the U.S., including complete plant or turnkey imports, buying technology, compensation trade, licensing agreements, and joint ventures (Wang, 1984). The most complex form of Sino-U.S. cooperation, joint ventures, specifically equity joint ventures, will be the focus of this paper.

For China, joint ventures with foreign firms are a "radical departure from [their] previous practice of arm's length trade" (Ho and Huenemann, 1984). U.S. firms typically progress from exporting to licensing, and finally to direct investment via joint venture in serving foreign markets (Daniels, King and Nigh, 1985). While joint ventures have been the "least popular of the principal forms for investing in

China" (Cohen, 1982), the Chinese "are especially open to the formation of manufacturing joint ventures" (Holton, 1985) and have enacted legislation to upgrade the investment climate and, in particular, increase joint venture development.* The willingness of U.S. partners to accommodate the Chinese by investing through the use of joint ventures, despite reservations, stems in large part from strong desires to enter the China market (Daniels, King, and Nigh, 1985; Campbell, 1986). These joint ventures serve multiple agendas: they provide each partner with some level of control over the investments (Killings, 1978, 1983; Harrington, 1985) and, perhaps more importantly, they provide a sustained relationship between the partners which is critical to the successful transfer of complex technology, marketing know-how, and management skills (Emrick, 1977; Ho and Huenemann, 1984; Daniels, Krug, and Nigh, 1985).

Prior to 1980, U.S. companies had fewer than a handful of joint ventures with the state enterprises of the PRC, and since then, the number has steadily increased. The number of Sino-U.S. equity joint ventures was estimated to be about 140 by the end of 1985 (Roos, 1986). However, Pye (1986), states that between 1980 and 1984, approximately 900 joint ventures were formed, and during 1985, an additional 800 joint ventures were formed. This discrepancy reflects a basic lack of hard data about these ventures, but might be explained by the Chinese inclusion of most forms of business cooperation within their definition of joint venture. Whether one accepts the broader definition of joint

*For our purposes, joint ventures are limited to the formation of manufacturing joint ventures. While service joint ventures play an important role, they are subordinated to joint ventures within sectors identified by the Four Modernizations.

venture, or only considers equity joint ventures, the number of joint ventures has grown significantly. Yet by the end of this period, despite high expectations, the attributions characterizing these joint ventures have been mixed (Campbell, 1986; Davidson, 1987).

Davidson (1987) reports that two-thirds of the joint venture firms he studied reported that they had achieved or exceeded performance expectations. However, Campbell (1986) claims that dissatisfaction among foreign businessmen with industrial operations in China has become so acute that it could potentially affect the country's modernization plans and cites an array of complaints American businessmen levy at their Chinese partners. The complaints are commonly held by country groupings of the EEC, Japan, and the U.S. (Campbell, 1986; Lee, 1986). Whether or not these "unfavorable conditions" are true and accurate, when they are perceived to be true they influence joint venture practices, cooperation and, ultimately, the investment climate of China. Reports on satisfaction with the performance of these joint ventures is mixed. However, U.S. partners who express satisfaction with the joint ventures also identify significant impediments to the joint venture process (Davidson, 1987). These impediments are at the heart of successful joint venture performance.

The impediments to the joint venture process identified here are seen as consistently troublesome to both partners. These impediments have been identified in existing literature, and in interviews with companies involved in joint ventures with the Chinese. This analysis begins by describing a Sino-U.S. joint venture process model and then examines impediments to that process beginning with contextual impediments to the joint venture process, i.e., differences embedded in the respective cultures of the partners, including different economic assumptions and different values regarding business and society. Once contextual impediments have been identified, the focus shifts to processual differences and the impediments they present for the venture. These include all the critical processes involved in starting up a joint venture, (i.e., negotiation, control, staffing and remuneration; hierarchy, decision making and risk taking; and individual differences). We conclude our analysis with impediments to maintaining the ongoing joint venture operations. After these major impediments to the Sino-U.S. joint venture process have been identified, we discuss mechanisms for addressing these impediments.

The Sino-U.S. Joint Venture Process

The Sino-U.S. joint venture process model, described below, is an ideal, a comprehensive model drawn from existing literature and interviews with firms having China experience. This model can be characterized as a comprehensive, organization-level model of the overall Sino-U.S. joint venture process. This model departs from existing literature by its comprehensive nature, by its organizational level of analysis, and by its focus on Sino-U.S. interactions.

Historically, domestic joint venture literature has focused on joint ventures as an organization form (Berg, Duncan and Friedman, 1982); on environmental and industry conditions conducive to joint venture formation (Harrigan, 1985; Morris, 1983; Pfeffer and Salancik, 1978; Van de Ven, 1976); on joint or new venture strategy (Harrigan, 1985; Bessler, 198_); and, on joint venture management and control (Killing, 1983; Beamish, 1984; Schann, 1984; Lyles, 1985). The economic rationale for joint venture formation has been explored (Coase, 1937;

Williamson, 1975) as has the access to market rationale (Fayerweather, 1982; Daniels, Krug and Nigh, 1985).

The international joint venture literature has examined joint ventures as a strategic option (Davidson, 1982); the relationship between strategy and structure (Stopford and Wells, 1972); global positioning (Omhae, 1985); and the evaluation of joint venture success (Killing, 1983; Schaan, 1983; Beamish, 1984; Hladik, 1985). The majority of both the domestic and international joint venture literature focuses on components or elements of the joint venture process or joint venture outcomes. These works are not comprehensive, although Harrigan (1985) uses a competitive strategy framework to present a relatively comprehensive, dynamic model of joint venture success. Her model is derived from an industrial organization perspective, however, and does not deal with organization characteristics or processes in depth.

The Sino-Foreign joint venture literature is similar to the domestic and international literature in that it also focuses on elements of the process or on outcomes. Much of this literature is not U.S.-specific and includes Japanese, European and U.S. joint ventures combined in its analysis. Many contextual issues have been discussed in this literature. For example, Open Door Policy and the rationale for Sino-foreign joint ventures has been presented (Tung, 1982; Wei and Lin, 1982; Yahuda, 1982; Ho and Huenemann, 1984; Wang, 1984). The legal aspects of Sino joint ventures has been explored (Bauxbaum, 1982; Joseph, 1982). Political and risk factors associated with these ventures have been examined (Daniels, Krug and Nigh, 1985; Campbell, 1985; Cohen, 1982). Also, entrance into the China market through joint ventures and marketing has been discussed (Owen, 1982; Holton, 1985).

In addition to these contextual issues, there is an emerging literature that focuses on specific elements of the Sino-Foreign joint venture process. Joint venture creation and management has been described (Davidson, 1987; Hendryx and Vogel, 1986; Laaksonen, 1984). Negotiations and negotiating styles used in joint ventures have been studied (Pye, 1982, 1986; Jenkins, 1982; De Pauw, 1981). Japanese and U.S. joint venture operations have been studied (Grow, 1986). Also, human resource management has been explored (Tung, 1986; Zamet and Bovarnick, 1986; Horsley, 1984; Nelson and Reeder, 1985; Von Glinow and Chung, 1987). In addition to these specific studies, there are cases that focus on the experience of specific Sino-Foreign joint ventures (Hendryx, 1986; Wang, 1984; Buxbaum, Joseph and Reynolds, 1982; Tung, 1982). These cases do not present in-depth examples of the joint venture process, but tend to focus on specific aspects of the process. In general, the Sino joint venture literature is highly anecdotal and lacks a comprehensive framework for understanding the overall joint venture process. Following is a comprehensive model of the Sino-U.S. joint venture process.

The Sino-U.S. joint venture process differs in significant ways from joint ventures with other countries, and can be divided into four basic stages: Pre-Entry, Set-Up, Operation, and Conclusion. There are many factors to consider when assessing strategic opportunities, the business environment, and the investment climate in China. This model incorporates these factors and is designed to lead to "informed entry," that is, the development of realistic expectations about what the constraints, costs, and benefits of the joint venture relationships are likely to be. Informed entry prepares the firm for thoughtful and carefully designed Set-Up which is critical to successful technology transfer and eventual operation of the venture. The level and degree of operational success would determine whether the venture was dissolved, renegotiated, or expanded in scope or in other opportunities for the firm. The Sino-U.S. joint venture process model, outlined in Figure 1, is described from the U.S. perspective.

Insert Figure 1 About Here

The Pre-Entry Stage

The Pre-Entry Stage involves itself with all aspects of pre-entry work critical to the joint venture's success. This stage includes pre-entry education, preliminary investigation, market analysis, and commitment analysis. Each will be explained below.

Pre-Entry Education. The first step of the Pre-Entry stage is education before entry. Most analysts claim that firms having no previous experience would benefit from talking with those who have had such experience in the China market. Beyond simple talking, however, this educational process entails systematic education of intercultural factors, including but not limited to: Educating individuals charged with the preliminary investigations in the economy, the government, the general legislation, and the prevailing competition from other foreign or domestic sources (Killings, 1978; Davidson, 1982; Campbell, 1986; Grow, 1986).

Preliminary Investigation. As part of this educational process, in the preliminary investigation step, the firm explores the conditions under which it is prepared to commit time and/or money to investigating the China opportunity (Garland and Farmer, 1986). The actual investigation of opportunities in China can be, in and of itself, quite costly and time consuming. This preliminary investigation usually requires relatively extensive contact with the Chinese to discover opportunities and, more importantly, to develop an understanding of each sides' expectations (Davidson, 1982).

Market and Industry Analysis. In this step, the firm examines the fit between opportunities available in China and the firm's distinctive competencies (Garland and Farmer, 1986; Shirley, Peters, and El-Ansary, 1981; Ennis, 1986). Once a satisfactory degree of fit is determined, the U.S. firm undertakes an analysis of the specific market to enter, how and when to enter, and estimated costs associated with entry. Market entry decisions are constrained, for example, by which technologies the firm is willing to transfer or the amount of resources the firm is willing to commit to market entry in China. The firm becomes very familiar with the structure of its industry in China. Then the firm weighs the general pros and cons associated with entry and analyzes the political risk factors involved in an effort to determine overall market attractiveness (Daniels, Krug, and Nigh, 1985; Grow, 1986).

Once the firm progresses through these three steps of the Pre-Entry stage and develops an information base, they will be able to make an informed decision whether to enter the China market or not. The commitment analysis completes the final pre-entry step with the final decision on whether to enter the China market. Through all of these Pre-Entry steps, information collection and analysis skills are key to the success of the Joint Venture Process.

Commitment Analysis. In this step, the firm assesses its level of strategic commitment based on the information gathered to this point. This assessment entails a determination of the level of the resource commitment that the firm is willing to undertake (Glueck and Jauch, 1984) to enter the markets they have identified as feasible. Once the decision is made to commit to the China market and proceed with the Joint Venture Process, the firm enters the Set-Up Stage through the Negotiation Process, and if successful, the joint venture is formed.

The Set-Up Stage

The second stage of our Sino-U.S. joint venture process is Set-Up. This includes contract negotiations, the legal formation of the joint venture, and the actual transfer of technology.

Contract Negotiations. This is likely the most critical stage of the entire process because it sets the foundation for all future action. Effective communication is critical to the successful transfer of technology and to the implementation process (Ettlie, 1982; Yates, 1978; Sarason, 1972). To this end, we strongly believe that the U.S. partner should have a firm grounding in the Chinese style of negotiations (DePauw, 1981; Pye, 1986), which are usually held in China, to insure correct interpretation of messages presented during this process. Additionally, the education completed in prior stages, both awareness and knowledge building, prepares the U.S. partner to deal with the many organizations behind their partner, for instance, all of the local and national organizations that must be dealt with in preparing a joint venture feasibility study and other related contextual issues.

Previous strategic commitment decisions established parameters to guide the U.S. partner's negotiating team in decision making relative to resource commitment, duration of commitment, definition and limitations of the scope of technology transfer, structuring of the venture, and other related issues. Negotiation of structural issues is important because successful technology transfer depends in part on transfer implementation strategies, which includes identification of who should be involved in decision making, information exchange, and similar issues; and, characteristics of the implementing organization that emphasize fit between the organization and the technology (Fullen and Pomfret, 1977). Definition and limitation of the scope of the transfer have also been identified as critical to successful implementation (Berman and McLaughlin, 1978; Yin, Heald, and Vogel, 1977).

The Joint Venture Formation. Once negotiations are complete, the legal contract is signed, thus signalling the formation of the Sino-U.S. joint venture. The Chinese Joint Venture Law has provisions for formation of the Board of Directors, which will become the legal entity involved in establishing and operating the newly formed joint venture. As it begins to function, the venture progresses through the other Start-Up steps illustrated in Figure 1. Initial activities include the transfer of technology, identification of training and consulting needs and, eventually, production start-up. These activities will be followed by eventual routinization of the production processes, or operations.

Technology Transfer. Technology transfer has three basic components: the transfer of hardware, the transfer of software, and the transfer mechanism. The transfer of hardware includes design and material specifications, drawings, process descriptions, and plant or facility modifications. The transfer of software includes management and marketing skills, and general production "know-how" (Frame, 1983).

The transfer mechanism frequently involves extensive training of Chinese staff, and is an iterative and highly interactive process. We advocate "dynamic" technology transfer for the newly formed joint venture in that all changes made to the initial products, and those that are undergoing development, should subsequently be transferred. A "static" transfer of technology does not transfer any of the changes made in product development. As during negotiations, effective communication is critical to the success of the transfer since technology transfer is essentially the communication of know-how.

<u>The Operations Stage</u>

The third stage of the Sino-U.S. joint venture process model is the Operations Stage. This includes implementing production start-up and institutionalizing production or manufacturing processes.

<u>Implementation</u>. There are two phases of implementation. <u>Start-Up</u> is where the technology is first applied or, for example, where prototypes, verification units, etc. are first built. Start-Up provides feedback on how well the technology is transferring. It affords opportunity for the "bugs" to be ironed out, for information to be clarified, and for additional information to be provided, if necessary.

Once Start-Up is completed, ongoing production, or <u>Institutionalization</u> of the production process begins. From the Negotiation step throughout the Joint Venture Process, communication remains a key success variable. However, with Institutionalization, control replaces communication as the more critical success variable in the joint venture process. By control, we mean control over material and human resource inputs, the production process, the quality and quantity of output, and related production issues. Control of this process can last for several years with only occasional modifications being made to the manufacturing process or product mix. At the end of the negotiated life of the joint venture contract, we move to the Conclusion Stage.

The Conclusion Stage

The conclusion stage is the final stage in our Sino-U.S. joint venture process model.

Renegotiation or Dissolution. Sino-U.S. joint ventures are established for a predetermined duration. Prior to this, the joint venture can be dissolved by the Board of Directors. At the end of that time period, the partners may renegotiate the contract, or they may choose to dissolve the venture. In this final stage, communication once again becomes a key success factor.

Thus, the Sino-U.S. Joint Venture Process has four serial stages, each containing various steps through which the venture naturally progresses. At each of these different stages there are impediments to the joint venture process which we identify in the following section. Figure 2 shows the relationship between the various levels of impediments identified: Contextual, Processual, and Operational; and the four stages of the Joint Venture Process.

Insert Figure 2 About Here

Joint Venture Process Impediments

Contextual Differences

Contextual differences which present significant impediments to effective Sino-U.S. joint ventures stem, in large part, from competing ideologies regarding the economic and legal systems which permeate both countries (Ho and Huenemann, 1984; Joseph, 1982). The U.S. has a free market economy and a sophisticated and complex legal system; the PRC has a socialist, planned economy and a much less developed legal system. The dialectic nature of the economic and legal systems present significant, albeit not very controllable, impediments to the joint venture process. Nevertheless, understanding the differences enhances the opportunity for effective communication and for adequate analysis of potential outcomes likely to occur because of these differences.

<u>The Economic System</u>. The Chinese economic system imposes considerable constraints on joint ventures, and economic "truths" taken for granted in the U.S. have few counterparts in China. Consider, for example, different market assumptions. U.S. economic "truths" include a market comprised of buyers and sellers where business is freely transacted in an "efficient" fashion. In China, market knowledge is important but market forces (for instance, supply and demand) will be subordinated to the planned economy. The differences in perception regarding the role of market forces can create misunderstandings for firms engaged in joint ventures and, at least, perceptions of inequitable distribution of risk relative to the joint venture. These differences have an immediate, tangible impact on the selection processes of joint venture partners and resource allocation processes.

<u>The Partner Selection Process</u>. China's joint venture law permits Chinese enterprises to privately enter into joint ventures with U.S. companies. Despite this legislation, most joint ventures are of the "arranged marriage" variety (Pye, 1986) where partners are <u>a priori</u> selected by the Chinese. Chinese ministries have considerable control over which enterprises are selected and approved to participate in joint

ventures, and often this selection occurs without direct input from the enterprise. It is critical that the U.S. partner realize that, almost always, the impetus for the joint venture comes from the Chinese government and not the partner directly, because of the impact that this has on the Joint Venture Process. There are many layers of organizations behind the partner that must be reckoned with, both during formation and throughout the life of the joint venture. The joint venture is a small part of a much larger economic and social plan--currently called the "Four Modernizations"--which seeks development in science and technology, industry, agriculture and military defense, and as such, is subordinated to that plan.

In contrast, U.S. firms, acting independently, choose to enter into Sino-U.S. joint ventures usually to meet the firm's goal of penetrating the Chinese market (Daniels, King, and Nigh, 1985). As mentioned earlier, U.S. firms typically progress from exporting to licensing, to direct investment via joint venture in their efforts to serve foreign markets--a process that builds levels of expertise in a particular market. This pattern of market penetration has not been followed in China because of difficulties in developing exporting opportunities. Consequently, many U.S. firms enter joint ventures with Chinese partners without prior China experience, a practice perceived to put U.S. firms at risk due to lack of market knowledge. Tangential to this perception of economic risk, Sino-U.S. joint ventures include elements of political risk that must be factored into the decision to joint venture. Risk insurance is available and used by a small number of U.S. firms in an effort to temper the perceptions of political risk involved (Daniels, Krug, and Nigh, 1985). Additionally, the freedom that U.S. firms have to enter into these joint ventures creates a Chinese perception that these firms have considerable power and control. The Chinese are consequently befuddled when, for example, these firms cannot bypass U.S. export restrictions.

Resource Allocation. In an environment where resources that support joint ventures are particularly scarce, the Chinese give allocation preference to enterprises which in turn contribute to the "Four Moderations" goals. This controlled or planned allocation is a potential impediment for the joint venture, since the U.S. partner is accustomed to more direct control of, or access to, resources. During the negotiation process, for example, the Chinese partner may receive approval and commit to supply a certain quality and level of a resource needed by the venture. Once the venture has started, those "committed resources" may not materialize, and from the U.S. perspective, this is seen as a violation of the contract. The Chinese partner, however, may not have the control, the ability, or the influence to access those resources if they have been "re-allocated" by authorities higher than those associated with the venture. This again gets back to the subordination of the enterprise to the overall societal needs. These impediments arise when governmental priorities shift and the older ventures become comparatively less important than attracting new ventures. The implication for U.S. firms is that they have the freedom to enter joint ventures, but are constrained in their choice or selection of partners, in their ability to pursue markets of their choosing, in their ability control political risk, and in their ability to access the array of local resources necessary for the joint venture to function effectively. Awareness of the potential constraints that these impediments present is critical to the design of a joint venture structure sufficiently flexible to accommodate the constraints and, therefore, to the overall success of the Joint Venture Process.

The Legal System. The legal system in China is repeatedly cited by U.S. companies, and some Chinese, as problematic. The Chinese adopted the Joint Venture Law in 1979 to introduce certainty into joint venture relationships. Nevertheless, uncertainty still exists regarding the role of contracts, and to some extent, patents. Once they have signed contracts with the Chinese, U.S. firms are often asked to "renegotiate the terms of the contract." For the U.S. partner, requests for renegotiation are tantamount to contract violation, and given the U.S. penchant for a legal contract that is full and binding, renegotiations and lack of compliance with contract obligations can present severe impediments. Most likely, world opinion is what motivates the Chinese to comply with contracts, since "loss of face" in the international marketplace might stymie future business with the U.S. or other foreign firms. Also, public humiliation is still an accepted and practiced social control mechanism in China, and this "loss of face" is tantamount to public humiliation. Since much of China's future growth and development depends upon building equity joint ventures and attracting foreign exchange, this legal issue is particularly serious for the Chinese. Historically, however, for the Chinese "legal protection" and "contracts" have been secondary to trust and reciprocity--considered by the Chinese to be the real guarantors of business arrangements in general and joint venture success in particular.

Trust and Reciprocity. The practice of "mutual favors," the use of connections, lies at the heart of the Chinese business arrangement

(Liang and Shapiro, 1986). When a contract is negotiated between joint venture partners, it is the relationship between the two parties, not the legalities supporting the document, that upholds the contract and prescribes future action. The impediment presented by this difference in assumptions gives rise to perceptual as well as "affective" problems between the parties. U.S. firms perceive the Chinese as "renegotiating" the legal contract when they pursue "mutual favors." This results in U.S. partner's feelings of concern, disbelief, and ultimately distrust--reactions opposite to Chinese expectations. In a few cases, these feelings have been powerful enough to thwart the joint venture altogether.

For the Chinese, once two partners have reached an agreement, a certain trust exists between them. They are "old friends," and the Chinese rely heavily on old friends. Since the binding nature of the document is much less important than the relationship for the Chinese, there are numerous opportunities for impediments regarding the boundaries and nature of the relationship to arise. For example, testing the boundaries of a contractual agreement in an attempt to tease out yet a "better deal," a Chinese propensity, is well within Chinese relationship boundaries. However, this is frequently perceived by U.S. firms as "nitpicking."

In contrast, the Chinese perceive that they have been "burned" by some Western firms who have taken the position that the legal document is binding and supercedes the intangible trust and friendship. For instance, the Chinese lacked (and still lack) technical sophistication and trusted that the Western firms with which they were dealing would not take advantage of that fact. After all, technical sophistication is what the Chinese were attempting to buy. Some firms involved transferred outdated technology, others incomplete instructions or necessary manufacturing information. When the Chinese protested these occurrences, the Western firms countered with the fact that the Chinese had gotten what they contracted for.

As a result, the Chinese are slowly moving toward a more formal, legalistic relationship with their joint venture partners, perhaps to ensure their own protection. Nevertheless, expectations of trust and reciprocity still underlie most Sino-U.S. joint venture relationships. The U.S. partner would be well advised to learn to understand and work within this traditional Chinese system because it offers a window of flexibility in a very constrained environment (Liang and Shapiro, 1986; Wik, 1984; Jenkins, 1982). The expectation of trust and reciprocity is a meta-communication issue, and the potential for misunderstanding around this issue is large. Given the relevance of this issue to the relationship between the partners, at minimum, both should understand the others' perspective if the venture is to achieve long-term success.

Processual Differences

Contextual differences set the stage for the joint venture and processual differences determine the partners' scripts. Joint venture partners spend considerable time on negotiation, control, and decision making process issues when one might expect task issues, specifically technology transfer and implementation issues, to receive relatively more attention. The tasks are less embedded in the partners' respective cultures, and are perhaps seen as less of an impediment to the joint venture than are process issues. Processual differences add a second layer of impediment to the joint venture process, and are further exacerbated by individual differences that convolute already turbid waters.

The Negotiation Process. There are many problems in the negotiation process which stem from differences in perception (Pye, 1982, 1986). The concept of time, however, appears to influence almost all negotiation processes. Five years is a long time frame in the U.S., and fifteen years is a very long time frame (Hall, 1973; Hofstede, 1984). Most firms do not actively plan fifteen years hence, however, this is commonly the length of Sino-U.S. joint ventures. When a U.S. firm enters a Sino-U.S. joint venture, it is generally seen as a long-term strategic commitment. The Chinese do not view these alliances as long-term strategic commitments--from a planning perspective, the U.S. long-term is equivalent to the Chinese present. Some Chinese refer to the Cultural Revolution as "a mere pimple on the face of China," and the more than two century occupation of China by the Huns as an "inconvenience." This coupled with the Chinese propensity to "discuss" an issue until the other party sees it the Chinese way, certainly presents the appearance of extraordinary patience.

An interesting paradox emerges, however, once the contract is signed: the Chinese who were infinitely patient in negotiating the venture become infinitely impatient for it to be up and running. There is a marked lack of Chinese appreciation for the amount of time technology transfer and production start-up requires. Nor is there appreciation for the fact that the U.S. partner must deal with "red tape" delays back home just as the Chinese partner and venture have to in China. The U.S. partner who was impatient during negotiations now must become the more patient partner if technology is to be effectively transferred and production implemented.

Control, Staffing, and Remuneration Processes. U.S. firms generally staff according to need levels--downsizing and layoffs commonly occur during economic downturns. Layoffs, in particular, are an acceptable U.S. practice for matching staffing requirements to production fluctuations or for dealing with unsatisfactory workers. In Sino-U.S. joint ventures, these have only recently become acceptable staffing and control processes, and then only extreme conditions (Tung, 1982; Von Glinow and Chung, 1987).

By and large, China guarantees employment. This historically has been referred to as the "iron rice bowl," where all workers were entitled to "jobs" at a set income regardless of output. The Chinese partner supplies the venture with workers, perhaps only a third of whom are actually producing or delivering the venture's core products or services. The other workers assigned to, and paid by the venture, are involved in a variety of tasks not directly related to the venture. The U.S. partner has some small degree of control over staffing requirements. For example, U.S. venture partners are allowed to "fire" employees for lack of performance, but this rarely occurs and most industrial enterprises are burdened with "permanent employees" (Nelson and Reeder, 1985). The Chinese acknowledge that labor practices must undergo additional reforms (Horsley, 1984), and are making efforts to that end (Warner, 1987). However, old practices continue to thrive and contribute to overstaffing, which presents an impediment for the joint venture.

The 1979 Joint Venture Law "provides that a venture's Board of Directors is to determine manpower plans, pay scales, and other employment terms to be set forth in labor contracts . . . And, wage and bonus systems are to be based on the principle of tying compensation to job performance" (Horsley, 1984). Based on this law, the Chinese have demanded equal salaries or demanded that high percentages of the foreign venture employees' salaries be supplied by the joint venture. Pay structures in China are exceedingly low, the per capita income is roughly $350 U.S., however, benefit packages serve to boost overall remuneration. In contrast, the wage rate of workers employed by the joint venture is substantially higher than the average Chinese wage rate (Lee, 1986). Despite the fact that Chinese workers receive a higher than average wage rate, most of the excess wages demanded by the Chinese go into party coffers, not directly to employees of the venture. Remuneration practices present impediments to joint venture operations because, in practice, these rewards have not been linked to performance.

Hierarchy, Decision Making, and Risk Taking. Chinese bureaucracy and the rigid hierarchical relationships that accompany it are frequently cited as significant impediments to the Joint Venture Process. U.S. partners observe that the Chinese do not make a move without consulting higher-ups for approval. Often labeled an endless bureaucracy, U.S. firms must also reckon with all of the organizations behind their organizational partner. Chinese partners appear to lack the authority to make decisions, commit to very little on the negotiating table, and never appear to take risks. To the Chinese, this is simply the process of analysis and consensus seeking that routinely surrounds even minor decisions. Paradoxically, the Chinese do appear to have the authority to exact a commitment from the U.S. partner without going through the hierarchical approval process. Chinese who come away from negotiations with a better deal than was on the table, are considered heroes.

The U.S. partner generally has considerable latitude in decision making and knows the boundaries within which he has the authority to make decisions, boundaries partly determined by his parent firm and partly determined by law. U.S. partners can and do take risks and, furthermore, believe that is what they are paid to do. Also, the U.S. partner must maneuver through significant and multi-leveled bureaucracy at home. However, this is not evident to the Chinese because the decision making authority of U.S. partners appears to great in comparison to their own. The significant differences in decision making and risk taking latitude between the partners present an additional impediment.

Individual Differences. The final layer of impediment rests at the interpersonal level. Chinese and American personal styles differ enormously, and many practices acceptable in one culture are unacceptable in the other. Americans show anger, engage in self-aggrandizement, and are forthright, for example; and Chinese find these behaviors unacceptable. The Chinese, in turn, strive to "save face" for all parties concerned, to the extent that "honesty is not the best policy," if someone loses face. There are too many stylistic and behavioral differences to detail between the two groups, and these also create impediments to the joint venture process. However, these impediments are relatively minor compared to contextual and other processual differences. It behooves venture partners on both sides to acquaint themselves with the other's norms of business behavior, since it is at the interpersonal level that effective communication is guaranteed. Success in overcoming minor impediments sets the foundation for overcoming more significant impediments.

Ongoing Operations

The impediments mentioned so far have the most direct impact on the formative stages of the Sino-U.S. joint venture. Once these ventures have entered Start-Up, contextual and processual differences fade and the challenges of Operations comes into focus. Problems that are tolerable on a short term basis become impediments when encountered on a long term basis. Those engaged in Sino-U.S. joint ventures have identified the following issues as impediments to joint venture operation (Campbell, 1986; Lee, 1986).

Physical Infrastructure Issues. Physical infrastructure issues head the list of factors affecting venture operations, and include accommodation and the cost of accommodation, transportation, and communications problems. Both temporary and longer term accommodations are scarce, relatively spartan, very expensive, and subject to sudden price increases. Worse, these sudden price increases pertain to everything from hotel rooms to imported technology. A car is necessary for doing business in China, however, most imported cars carry a high import duty (280%), and good drivers are scarce. Internal travel in China can be quite difficult, and for most journeys a return ticket may not be booked. This is a very serious dilemma for U.S. businesspeople who travel regularly from Hong Kong. Further, foreigners pay a higher rate for travel service than natives pay. Communications remain an impediment. Telephone calls may be made from some hotels to the U.S., and telexes may readily be sent, however, in-coming calls are still a major problem.

Economic and Social Infrastructure Issues. Issues such as overvaluation of labor and land which leads to the high costs associated with achieving a contract, the lack of convertibility of reminbi, problems in recruiting competent Chinese staff, and low Chinese productivity have been identified as impediments (Roos, 1986). These last operational impediments are of a deeper nature, and could conceivably persist long after the physical infrastructure impediments are resolved.

In summary, we have sought to identify numerous contextual, processual, and operations impediments to the Joint Venture Process. The relationship between these impediments and the process is shown in Figure 3. Having discussed these impediments at length, we now focus on whether these impediments are sufficiently troublesome to warrant action by Sino-U.S. joint venture partners.

Insert Figure 3 About Here

Important Enough to Warrant Action?

The extent to which the impediments identified above are sufficiently troublesome to warrant action by Sino-U.S. joint venture partners remains a case-by-case analysis. There are few empirical studies that have attempted to identify the major problems with operating businesses in China (cf. Campbell, 1986; Warner, 1986; Daniels, Krug, and Nigh, 1985). For the most part, even these empirical assessments draw heavily on case-by-case examples, and are more descriptive than prescriptive. Most of the case analyses done so far are non-research based, largely anecdotal, and represent only one view of the joint venture--the U.S. side. This is true because reliable information on China, and in particular on specific enterprises, often cannot be obtained from sources usually employed in the evaluation of overseas investments (Daniels, Krug, and Nigh, 1985).

Additionally, research entry has been difficult under the most favorable conditions. The reader should be reminded that China's doors were closed during the Cultural Revolution, preventing any entry for research purposes during that period; and although officially there is an Open Door Policy now, a basic lack of trust about self-disclosure remains. Thus, it has only been within the last eight years that any type of analysis has been allowed, and it has only been within the last six years that scholars and research agenda have become more acceptable. Having issued the above limitation on the data, we draw upon the change literature in offering the following assessment.

Coping versus Unfreezing

An analysis of action regarding impediments to the Joint Venture Process indicates two organizational strategies used in overcoming these impediments: coping and unfreezing. Coping strategies are attempts to simply cope with, but not change, impediments encountered in Sino-U.S. ventures. These coping mechanisms are examples of treating symptoms, but not necessarily trying to find cures for the impediments encountered. They are generally used in overcoming operational impediments and are the most commonly used strategies for dealing with impediments. From what little data exist, communication and transportation problems are significant enough so that U.S. firms are willing to pay the inordinate costs associated with bringing personal computers to China, and to pay for automobiles which must be imported. Further, telexes have now been installed in most factories engaged in joint ventures. U.S. personnel are also more apt to fire non-productive employees now, in an attempt to better cope with the "iron rice bowlers."

The second type of strategy, unfreezing, is a proactive strategy used principally by U.S. partners to attempt to go beyond curing symptoms, to actually changing the nature of the joint venture relationship by removing or resolving impediments. Some U.S. firms are attempting to reduce uncertainty by upgrading legal safeguards that affect joint ventures. This represents an attempt to unfreeze Chinese attitudes toward the legal contract. In a few instances, MBO and other performance-accounting systems have been incorporated into joint venture management practices in an attempt to upgrade Chinese productivity through the use of modern management techniques. Finally, however little it appears, some of the U.S. firms joint venturing with the Chinese have attempted to change or unfreeze their own behaviors to better match the Chinese context in which they are operating.

These coping and unfreezing strategies appear meager in light of the great importance that both U.S. firms and the Chinese place on joint ventures. However, at this point, Sino-U.S. joint ventures appear as though they were built on a bed of shifting sand and meager approaches may be all that these delicate, shifting relationships can tolerate. The coping strategies used by U.S. firms are short term approaches to the impediments encountered. While expedient and even necessary at times, in and of themselves, coping strategies are not sufficient to strengthen the joint venture process and are risky in the long term.

A longer term, proactive approach involves resolution, or removal of impediments that may be inhibiting the success of the joint venture. Proaction holds out the promise of problem solving and self-design that can potentially make the venture more resilient (Argyris, 1965; Weick, 1977). However, like any substantial change processes, proactive approaches can be extremely difficult to implement, and costly in terms of personal investment and commitment (Huse and Cummings, 1985; Beer, 1980; French and Bell, 1978). Reliance solely on proaction to solve problems created by joint venture impediments is a risky strategy.

The third approach is a middle-ground approach, and it rests on two factors: "Informed entry," the development of realistic expectations about what the constraints, costs, and benefits of the joint venture relationship are likely to be; and effective communication throughout the process. This middle ground is proposed because many of the impediments identified cannot be resolved at this stage of China's development, and the only effective way to deal with these impediments is to accept them as constraints on the joint venture process. Informed entry is possible if firms proceed through the Joint Venture Process identified earlier, starting with Pre-Entry Education. Effective communication is possible if, once "educated," these firms proceed thoughtfully through the technology transfer process and actively solicit abundant feedback.

As a complement to informed entry and effective communication, we recommend a "meta-coping" behavior, a large dose of patience and flexibility. Joint venture partners should assume that delays will occur at every stage and step of the joint venture process: negotiations will take longer than expected, technology will transfer much more slowly than planned, production plans will be fraught with setbacks, channels of distribution will be backlogged. The assumption that these delays will occur enables both parties to proact with patience and flexibility rather than react with frustration and enhance the overall likelihood of joint venture success.

If both partners are content with the status quo and fail to at least explore these impediments, then unrealistic expectations are likely to underlie the joint venture. Knowing the partner's strengths and weaknesses, flexibilities and inflexibilities, and the environmental constraints on the venture, even if they cannot or will not be changed, will undoubtedly lead to a more productive joint venture relationship.

Conclusion

In conclusion, we have presented a process model of the Sino-U.S. joint venture relationship developed from a synthesis of existing literature. We identified and classified various levels of impediments that affect the joint venture process. Finally, we described how these impediments are currently resolved, and offered suggestions on alternate resolution methods.

There are numerous research and methodological issues raised by this attempt to develop a cross-cultural model that incorporates multiple levels of analysis within its domain, and, the Joint Venture Process model depicts as linear, a relationship that is significantly more convoluted. As mentioned, the data supporting much of the theoretical development in this paper is anecdotal and from the U.S. perspective. Nevertheless, we believe that the mapping of the Sino-U.S. joint venture process, and the identification of impediments to that process, is a necessary starting point for systematic prescriptive research in an area that has lacked even simple descriptive research.

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FIGURE 1

SINO-U.S. JOINT VENTURE PROCESS MODEL:
THE U.S. PERSPECTIVE

Process Stage	Process Steps	Key Success Factor
Pre-Entry	-Pre-Entry Education	Data Assimilation
	-Preliminary Investigation	
	-Market Analysis	Data Analysis
	-Commitment Analysis	
Set-Up	-Contract Negotiations	Communications
	-Venture Formation	
	-Technology Transfer -Hardware -Software	
Operations	-Implementation -Start-Up -Institutionalization	Control
Conclusion	-Renegotiation -Extension -Expansion	Communications
	-Dissolution	

FIGURE 2

IMPEDIMENTS TO THE SINO-U.S. JOINT VENTURE PROCESS

Pre-Entry

- -Pre-entry Education
- -Preliminary Investigation
- -Market Analysis
- -Commitment Analysis

Set-Up

- -Contract Negotiations
- -Joint Venture Formation
- -Technology Transfer
    - -Hardware
    - -Software

Operations

- -Implementation
    - -Start-Up
    - -Institutionalization

Conclusion

- -Renegotiation or Dissolution
    - -Extension
    - -Expansion

Contextual Impediments

Processual Impediments

Operational Impediments

FIGURE 3

CONTEXTUAL, PROCESSUAL AND OPERATIONAL IMPEDIMENTS
TO THE JOINT VENTURE PROCESS

CONTEXTUAL IMPEDIMENTS

The Economic System--Market versus Planned Economy
- Different Partner Selection Process
- Different Resource Allocation Mechanisms

The Legal System-Developed versus Developing Legal System
- A transparent versus a traditional system
- Laws and legal precedent versus trust and reciprocity as guarantors

PROCESSUAL DIFFERENCES

The Negotiation Process
- Time frame paradox
- Decisive versus collaborative styles
- Endless bureaucracy

Control, Staffing and Remuneration
- Need level staffing versus the Iron Rice Bowl
- Differences in parent pay structures
- Lack of Performance-Reward linkage

Hierarchy, Decision Making and Risk Taking
- Weak versus strong interorganizational linkages
- Endless bureacracy
- Autonomous versus Concensual Decision Making
- Risk acceptance versus risk avoidance

Individual Differences

OPERATIONAL DIFFERENCES

Physical Infrastructure
- Accommodation issues
- Transportation issues
- Communication issues

Economic and Social Infrastructure
- High cost of achieving a contract
- Overvaluation of land and labor
- Lack of convertibility of reminbi
- Recruitment of competent Chinese staff
- Low Chinese productivity