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Parental Desire for Control of Joint Ventures:
A Case Study of an International Joint Venture

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Parental Desire for Control of Joint Ventures:
A Case Study of an International Joint Venture

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PARENTAL DESIRE FOR CONTROL OF JOINT VENTURES: A CASE STUDY OF AN INTERNATIONAL JOINT VENTURE

Abstract

This paper provides an in-depth look at how parental desire for control of an international joint venture changes over time. Past literature addresses the partners' motivations at the time of formation and is unrealistic for evaluating JVs that exist for a long time period. The mechanisms for controlling the joint venture's strategic direction and management are examined by enumerating the types of controls and by assessing their impact. The findings suggest that more formal control mechanisms are not as influential as informal controls and that the intensity of desire for control influences the control mechanisms used.

The role of the partners in an international joint venture was explored over its life of thirty years. Interviews were conducted with managers of the partner firms, as well as with all the living ex-presidents and current president of the joint venture. Publicly available information and company documents were researched, and board meeting minutes were examined for the last twenty years.
Recent theorists and practitioners maintain that most firms would prefer to enter a joint venture (JV) only as a last resort and will attempt to have as much control as possible when forming the joint venture (Harrigan, 1985; Hladik, 1985; Pfeffer and Salancik, 1978; Stopford and Wells, 1972; Van de Ven and Walker, 1984; Young and Bradford, 1977). These scholars suggest that the parental desire for control influences the parent firm's attempt to constraint and direct the strategic direction of the JV. A joint venture is, by definition, a separate organization that is formed by two or more parent firms for more than a short duration of time. The control mechanisms such as direct involvement in JV management decisions, in the allocation of resources, and in social controls illustrate the desire for control by the parents.

Issues of control are important because in order for the JV to develop, it must be neither so tightly constructed that it cannot pursue its mission nor so loosely constrained that it develops in undesired directions (Prahalad and Doz, 1984). JV's have two or more parents who have individual reasons for being involved in the JV and who have different levels of desire for control. As the JV matures, one parent frequently becomes the dominant parent and controls the JV (Killing, 1982). Inherent in this maturation process are changes in parental desire for control.

Using this premise as a basis for studying desire for control of the parents of a JV, this study examined the changing parental patterns of desire for control and of techniques used to control an international JV. Most researchers to date have been concerned with reasons and
mechanisms for formation of a joint venture by looking at the JV at the point of formation. Longitudinal studies are rare. The present study identifies and explores the important control issues over the thirty-year life of the joint venture.

The joint venture (EIM) was formed in 1946 by three American (AMC, PC, and Green) and four European firms. By 1976, PC had acquired more than 95% of the JV although originally it had only 25% equity. This study examines how PC's desire for control changed over time, how it controlled the independence of the JV, and how well its control mechanisms worked. A more detailed history is found in Appendix I. The names of the firms and of the people have been changed in order to comply with their requests for anonymity.

This study proposes to identify the various methods that are used for control, to discuss the effectiveness of these methods by utilizing a case study of an international joint venture as an example, and to develop a theoretical framework that explains the extent to which a parent firm has a strong desire to control a joint venture.

**JV ACCOMPLISHMENT OF PURPOSE**

The mission of the joint venture is initially determined by the parent firms at the time of conception. Based on their own motivations, the parents determine the nature and extent of the initial activities of the joint venture. These motivations or reasons for formation range from political reasons, such as gaining power in a country or gaining a political ally, to economic reasons, such as increasing profitability or creating barriers to entry in the industry,
to strategic reasons, such as improving the parent's long term viability (Franco, 1971; Pfeffer and Salancik, 1978; Young and Bradford, 1977).

JV MISSION

Accomplishing a mission is not easy or assured under normal conditions: every business faces competition, changing environmental conditions, and difficulties motivating people to work toward organizational goals. Businesses address the problems of developing control mechanisms aimed at achieving objectives, at creating structures and policies that carry out the activities, and at strategic surveillance (Newman, 1975).

International joint ventures face additional sets of problems: different international cultures, different parent firm cultures, varying legislation governing operations and multiple political environments. The complexities of doing business is greatly increased for joint ventures and consequently, the difficulty of maintaining their viability is also increased (Berg, Duncan, and Friedman, 1982).

An additional factor affecting the joint venture's ability to carry out its mission is the characteristics of the people representing the parents and the joint venture. The aspirations, perceptions, and ability to interact with others are attributes of the leadership of any organization and have a tremendous impact. These influence the extent to which the parent firms have a strong desire to control and/or to be involved in the joint venture (Doz and Prahalad, 1981; Fiol, 1986).
NATURE OF JVs

Joint ventures are not independent entities: they must interface and interact with the parent companies. Over time, the parent companies face their own changing environmental and industry conditions, go through their own stages of corporate growth, and face threats to their corporate survival.

Some of the parents' goals may be in direct opposition to that of the joint venture. Although the joint venture is formed by two or more firms that agree at the time of formation about certain particulars, there may be mixed motives or hidden agendas even at the point of inception (Lyles and Rajadhyax, 1985; Van de Ven and Walker, 1984). For example, the parents may want to acquire the skill or knowledge of the other parent or want the joint venture only to be in certain activities or certain markets. In assessing some parental motives, Mendolia remarked "... more attention is given to narrowing the scope of joint ventures than in establishing a climate for independent activity" (1979, 819).

This study attempts to address the nature of a dynamic relationship between a joint venture and its parents in an attempt to better understand questions of ownership and control of joint ventures. It addresses the types of control that were used by the parents over time and the changes that occurred. Nonetheless, it only suggests a beginning point for research on the effect of parental controls on joint venture success.
CONTROL OF JOINT VENTURES

The ability to control the joint venture's direction will be determined by the contextual factors of the joint ventures, the parental desire to control the JV, and the impact of the various devices used by the parent to control. The JV is designed with certain influence factors that result from the context, such as technology, strategy, or structure, as predetermined by the parents. However, these factors influence how easy or difficult the JV is to control and they also change over time. Authors such as Dunbar (1981), Jaeger and Baliga (1985), Mintzberg and Waters (1984), Ouchi (1977, 1979) and Peterson (1984) have written about control in organizations, and we assume that the theoretical frameworks also apply to joint ventures.

Desire for control is the degree to which the parent wants to influence the strategic direction of the joint venture and to shape the mission of the joint venture. Lorange (1984) refers to strategic control as encompassing desire for control as well as the implementation of the mission. Desire for control is influenced by the visibility or importance of the JV within the parent firm, the degree of sophistication of the parent in managing JV relationships, the changing developments of the parent firm, and the personalities involved (Harrigan, 1985; Schaan, 1985; Prahalad and Doz, 1984; Singh and Doz, 1983). This desire for control changes as the parent firm develops.
FIGURE 1

COMPONENTS OF ACTUAL CONTROL

Actual Control

- Contextual Factors
- Desire for Control
- Impact of Control Devices
Control devices may be direct by participation in the board of directors, by direct involvement in the selection or socialization of the management, or by resource allocations in the form of monies, expertise, or people (Newmann, 1975; Ouchi, 1977, 1979). Indirect control mechanisms can also be used to influence the direction of the JV by negotiating with the other partner firms outside the Board of Directors' meeting, influencing host government requirements, withholding technical information, etc. (Harrigan, 1985; Hladik, 1985).

Actual control is the real amount of control exercised by the parent firm. It is influenced by the effect of the context, the desire for control and the control devices (Dunbar, 1981; Ouchi and Maguire, 1975). These control factors are interrelated and influence each other. Thus, actual control is a function of the contextual factors, the parental desire for control, and the impact of the control devices used. Each of these will be discussed in more detail below.

CONTEXTUAL FACTORS

The organizational context determines the ease of control of the JV. If it is easy to control, the parent will be able to establish control devices such as rules, regulations, pricing procedures, and/or clan mechanisms that will keep the joint venture meeting the parental goals without too much difficulty (Doz and Prahalad, 1981; Ouchi, 1980).

Technology. The nature of the technology used will influence how easy or difficult a joint venture is to control. If the parent contributes its technological expertise and continues to invest in R&D relating to the technology, it will have a high desire to control the
JV in order to safeguard its technology (Ouchi, 1977). If the JV develops its own technology or innovates, it will be harder to control. However, there may be a strong desire for involvement by the parent in order to have quick access to information about any new developments.

Another important control consideration is the type of technology. If the technology involves mass production that is relatively stable, the joint venture will be easier to control. If, however, the JV utilizes a craft technology or one with high task variability, it will be harder to control. The more labor intensive the technology, the harder it will be to control (Mintzberg, 1973; Ouchi and Maguire, 1975).

**Structure.** For our purposes, the particular features of structure that are important to control of the joint venture are (1) the reporting relationship to the parent and (2) the structural design of the JV. Total agreement regarding the best reporting approach for controlling a JV does not exist. It appears that if an international JV interfaces with the International Division of the parent corporation, the JV is allowed more autonomy and may, in fact, be easier to influence because of better relations with the parent company (Davidson and Haspeslagh, 1982; Doz and Pralahad, 1981). On the other hand, if the JV reports to a product group, there will be higher parental desire to control the JV but more conflict. If the JV has only one function or one physical location, it would be easier to control and if the JV is highly decentralized or differentiated, it would be harder to control (Dunbar, 1981; Ouchi, 1977, 1979).

**Environment.** The environment can be rapidly changing and dynamic requiring that the JV have the autonomy to make quick decisions. In
this case, the JV would be harder to control from corporate headquarters. Furthermore, an international JV operates in a foreign community where the local managers may have a better understanding of the environmental conditions. On the other hand, if the JV operates in a relatively stable environment where the market conditions are known and the culture is understood by the parents, the JV will be easier to control (Doz and Prahalad, 1981).

**Strategy.** A clear, unambiguous, and stable JV strategy will be easier for the parent to control than one that is more emergent, ambiguous, and produced cooperatively (Mintzberg and Waters, 1984; Van de Ven and Walker, 1984; Rumelt, 1974). In the latter case the JV management would be in a better position to interpret information, assess opportunities and to move quickly. The momentum that is created influences how easy the JV is to control: the more pervasive and resistant to adjustments, the harder it will be to influence and to cause a change in the JV strategy (Miller and Friesen, 1980).

**Leadership.** JV managers who are entrepreneurial, who closely identify with the JV, and who attempt to build a JV culture separate from the parents are harder to control. Consequently, JVs that have management who have a desire for autonomy, who develop a strategic orientation separate from the parents, who encourage the JV to develop its own resources and who attempt to build an independent JV culture and coerce the parents into it will be much harder to control (Harrigan, 1985).

**DESIRE FOR CONTROL**

**Visibility.** The more visible a joint venture is within the parent company, the stronger will be the desire to control the joint venture.
If the profits or sales of a product area within the parent company is heavily determined by the joint venture, the more visible it will be. If the JV has a different business orientation than the parent firm, there will be less of a desire to control it. The closer the JV mission and product lines are to those of the parent, the higher will be the desire to control the JV by the parent. Similarly the higher the strategic importance of the JV to the parent, the stronger will be the desire to control the JV (Harrigan, 1985).

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**INSERT FIGURE 2 ABOUT HERE**

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**Sophistication.** The amount of experience the parent has in managing joint ventures will also determine the extent to which it has a strong desire to control the JV: The less experienced, the higher the tendency to want to control (Davidson and Haspeslagh, 1982).

**Stages of Growth.** The parent firm experiences its own growth. It confronts changing environmental and industrial conditions and changing internal conditions in its own structure and strategy that can impact parent's desire to control the JV. There will be confounding events, acquisitions and divestments of other JVs or divisions, and governmental demands. The method of interface of a foreign unit with the parent company has been demonstrated as having important implications to how the parent firm handles the foreign subsidiary (Prahalad and Doz, 1981). Whether the JV reports to the parent firm's International Division or the product area, the point of interface will impact the desire for and the amount of control exercised over the JV.
FIGURE 2

PARENTAL DESIRE FOR CONTROL

Degree to which the parent wants to influence the strategic direction of the joint venture

Visibility of JV

Sophistication of Parent

Personal involvement of management

Stages of Growth of Parent Firm
Personalities. One of the major determinants of a parent's ability to control the JV is the leadership in both the JV and in the parent. Parental management who strongly identify with their firms have a lower likelihood of forming JVs and when they do, have a higher need to control the JV and to be directly involved (Fiol, 1985).

DEVICES FOR CONTROL

Control devices are methods by which a parent firm can influence and direct the goals of the joint venture and its management. These include control through the board of directors, control through the management, and control through resource allocations (Pfeffer and Salancik, 1978). These represent the behavior and output controls identified by Ouchi (1977) and Newman (1975) and also input controls (Dunbar, 1981; Peterson, 1984).

Control via Board of Directors. By obtaining an equity position in the joint venture, the parent has the right to exercise control at the highest levels of the joint venture. The most important vehicle for control is the number of votes that the parent firm has either directly because of its equity position or indirectly because of its ability to appoint people to the Board who will vote according to the parent's wishes. Another method of control that the parent firm can use is agenda setting for the Board of Directors' meetings. The parent firm can lobby to influence the JV management or the other parent firms, and it can meet with the other parent firms to determine the agenda outside the official meetings. A third method of control, an input device, is control over the official documents. By influencing what is written into the legal contracts and agreements, the
parent firm can exercise a tremendous amount of control over the JV's activities, its markets, the amount of revenue that it reinvested into the JV, and how much is paid out in dividends or royalties.

Control through Management. Selection of the management involves choosing people who will comply with the wishes of the parent company and who will be familiar with the way the parent company operates. Selection may be of the JV president, as well as other managerial positions. Socialization is a very important control device which establishes mutual understanding and shared cultures which serve to guide the actions of the management (Ouchi, 1977; Jaeger and Baliga, 1985). Consequently, devices such as bringing the JV management to the parent headquarters for training or part-time assignments serve as a mechanism for controlling the behavior of those individuals in the future. If the parent firm determines the methods of compensation for the management (pay, bonuses, profit sharing, pensions, etc.), this serves as a powerful control device. The last method of control through the management is through agenda setting with the management. This involves communicating directly with the management about the intent of the parent.

Control through Resource Allocation. The parent firm can exert control over the JV by controlling the monies that get allocated for new projects, research and development, capital improvements, etc. The parent firm may be involved in direct resource allocation control, such as loans or direct investments in the JV, or it may have indirect control through having the right of approval outside the Board of Directors on any investment decisions. Expertise is another control
device since the parent firm can give or withhold its expertise about technological knowledge and research and development. The parent firm can also control licensing arrangements. The last method of control is people/time. The parent firm controls how many and which people are sent as advisors or liaisons with the joint venture and how much of their time is allocated to the joint venture.

METHODOLOGY

This study describes the longitudinal study of an international joint venture and develops a comprehensive understanding of the factors affecting the ability of parents to control a joint venture. An attempt was made to track the points in the history of the joint venture that affected the control of the JV, to understand the method of control, and to assess how these influenced the destiny of the joint venture. The previous theoretical papers summarize the initial framework used to guide the collection and verification of the data. Grounded theory (Glaser and Strauss, 1967) was used to allow the researcher to see if these theories applied to joint ventures and to see if other contingencies applied.

Since the objective of this study was to develop an in-depth understanding of the control relationship between a joint venture and its parents, a case study approach was required. This study attempts to develop a retrospective view of a longitudinal process in order to examine the events that occurred and why. The control process itself is lagged, meaning that although a control event may occur in Period I, the full impact may not be evident until Period III. For these
reasons, the methodology and sample size demanded an in-depth investigation with a triangulation of data sources to validate and clarify events and results.

Interviews were conducted with all living people who had served as President of the JV, with ex-members of the Board of Directors from the parent firms, and staff members of the focal parent firm. In all, about 50 interviews were conducted in both the United States and in Europe. These lasted an average of two hours or more. The companies and people were very cooperative and allowed the researcher to return several times for interviews. In this manner, the researcher had the opportunity to raise additional questions, to clarify certain events, or to probe deeper regarding the event.

In order to verify these verbal reports, two other kinds of data were utilized: publicly available information such as annual reports and newspaper clippings, and company archival data such as minutes from board meetings, memos, etc. In all, over 300 pages of information were accumulated about the JV.

The interviews were semi-structured asking the participant to reconstruct the period of time in which he was directly involved with the JV. Questions regarding the control of the joint venture were straightforward, such as asking about the reporting structure, how much involvement the parent firms had in the appointment of JV managers, the extent to which resource allocation decisions had to be approved by the parent firms, etc. Because several people were interviewed regarding the same time period, alternative viewpoints about events were identified and served as probes within the interviews.
With the aid of a research assistant, the interviews and data were coded to reflect a timetable for the JV incorporating any changes that occurred, control mechanisms that were utilized, and the resulting reactions. Any uncertainty regarding the timing of events was verified by going back to the archival data, to the person interviewed, or to an alternative person.

RESULTS

Because this was an exploratory study, attempts were made to determine the influencing factors on the ability of a parent firm to control a joint venture. Content analysis of the interviews, the archival information, and the company documents was used as the primary analytic method. The results given are limited, and certainly subject to the procedures used. The principle limitation concerns the problem of generalizing to all JVs on the basis of the results from this case study. The benefit, however, was that sequencing of events could be identified so as to permit analysis of relationships among the variables.

CHANGING CONTEXTUAL VARIABLES

The contextual variables influence the parent firm's ability to control the joint venture and are also influenced by the devices used by the parent firm for control. Figure 3 shows graphically how these contextual variables changed over time. During the first time period 1946-1953 the ease of control of the JV was somewhat mixed based on the
Figure 3

CHANGING CONTEXTURAL VARIABLES

Ease of Control

Hi
- Leadership
- Technology
- Strategy
- Environment

Lo
- Structure

Time Period
1946-1953
1954-1964
1965-1972
1973-1978
analysis of the contextual variables. (See Appendix I for further explanation of the events during the various time periods.) The structure was simple, but the JV leadership wanted independence from the parent companies. There was a limited market with low demand and import restrictions that limited sales and made the industry more competitive.

During the next time period, the JV became more difficult to control: the technology became more complex, the JV expanded into new products and geographical areas, the new management was entrepreneurial, and the strategy was emergent. Only the environment of high growth provided opportunities for ease of control of the JV.

The third period, 1965-1972, again represents a time when the contextual variables indicated that the joint venture would be difficult to control. Even though there was a change in the equity position of the focal parent firm PC, it still had difficulty controlling the joint venture. The complex contextual conditions from the prior period continued to exist, and the environment was more uncertain and complex.

Within the final period, we find the control devices of the parent firm PC having some impact and also the other contextual factors converging to make the JV easier to control. The environment was more predictable with competitors but stable, slow growth. The strategy was simpler than in previous periods with fewer products and markets.

The analysis of the contextual variable visually suggests that the JV was difficult to control for most of its life, but was easier to control during the last period. Our concern is, thus, centered on the first three periods to determine what lead to the JV's ease of control.
Given this initial analysis, one wonders about the desire to control the JV by PC and the other parents, whether this desire changed over time, and what control devices resulted in impacting the control of the JV in the last period.

PARENTAL DESIRE FOR CONTROL

Most literature on joint venturing addresses parental motivations only at the time of formation of the JV. Only recently have researchers begun to look at how these motivations change over time (Harrigan, 1985; Schaan, 1984). It seems obvious that as conditions change for the parent firm, so will its desire to control the JV and to be directly involved in it. Desire for control was defined as low, medium or high and was measured by independent rankings by three people for the four time periods. Consensus was reached about the categories presented.

Table I summarizes the changing motivations for involvement and control. This shows three primary agents influencing the JV. The first is the corporate level staff within PC. The second agent who became influential over time was the product areas with PC. The third were the other partner firms who are grouped together because they shared similar goals and orientations and acted as a group.

Initially PC did not want to control the JV, but over time differences within PC occurred. The firm became more diversified, and the visibility of the JV at the corporate level was reduced. PC's President
# TABLE 1

**PARENTAL CHANGING DESIRE FOR CONTROL**

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<tbody>
<tr>
<td><strong>PC</strong></td>
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<tr>
<td><strong>CORPORATE</strong></td>
<td>LOW</td>
<td>MODERATE</td>
<td>LOW</td>
<td>HIGH</td>
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<tr>
<td><strong>PRODUCT AREAS</strong></td>
<td>LOW</td>
<td>LOW</td>
<td>HIGH</td>
<td>HIGH</td>
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<tr>
<td><strong>PARTNERS</strong></td>
<td>HIGH</td>
<td>LOW</td>
<td>MODERATE</td>
<td>LOW</td>
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</table>
who had been very actively involved in setting up the JV and who was a good friend of the JV manager became less involved as PC diversified and reorganized.

PC's product areas became more involved as the JV became more visible by successfully manufacturing and selling their products. Nonetheless, the product areas never wanted to be involved in managing the JV: they just wanted to control it. This led to mixed motives within PC. Conflict emerged as the product areas saw opportunities for themselves in Europe, but these seemed to be restrained by the existence of the JV. Their desire to control the JV increased dramatically in the third period, and they pushed PC for more control of the JV. One ex-president of the JV remarked about this:

I didn't realize how much control they would try to exercise. In view of the fact that we had done so well over the years. In the 16 years that I was there, I think we had only one year that we lost money and that was really a situation brought on by an economic dip.

The changing desire for control also created conflict within PC in the third period as well as conflict with the JV.

When PC did take over and exercise considerable authority, it created quite a conflict. We had one executive that would stick up for our program. He understood our program. He was the fellow in charge of the overseas. He was forced to retire early.

Another manager said:

The JV had rights to manufacture PC products and to sell them also. The product division made an appeal to the executive vice-president to have that product line taken out of the JV and put in a separate manufacturing plant with its own independent management in Europe.

In the first period, one of the partners had a hidden agenda to take over control of the JV. Thus there were mixed motives initially
among the partner firms. PC reacted by taking actions that increased its own desire to control in the second period.

The partners in the second period had a low desire to control the JV but a high desire to be involved. They were happy with Casey as the JV President: The autonomy of the JV was fine with them. Casey encouraged them to be involved by developing a "club" atmosphere to the board meetings. The board members got to know each other personally. They acknowledged the importance of the JV to their own businesses and their satisfaction with the way it was being run.

Their objectives were being met. They weren't looking for an extensive return on their initial investment which was very low. Their goals were to get a reliable product locally manufactured.

The reason why the partners were willing to sell part of their equity position was because they were content with the way the JV was being run and because "PC wanted to develop the business but we didn't."

One ex-board member said:

The Americans wanted to control everything. This particular business line was not the partners' main line: they were happy with the service they were getting. If they bought out PC, they would have to run the JV, and they weren't willing to do that.

However, in the third period, as the partners were being pressured by PC to be less involved and as they saw themselves losing control, their desire to control the JV increased. This created conflict between PC and the other partners. The partners found themselves competing directly with the JV as changes were made in the JV's strategy to broaden its product line and markets.

In the last period, there continued to be mixed motives within PC and the other partners. In PC the mixed motives were verbalized by a
number of upper management with direct experience in the joint venture who felt that PC should not take total control of the JV. They felt that the continued relationship with the partners would benefit everyone and that there was no reason to gain 100% control. But a change in corporate attitude occurred that led to a high desire for control of JVs in general. One corporate manager said, "My experience is that we want to exert control in these joint ventures—management control. It is true today—irrespective of whether we are in a minority position."

On the other hand, external events influenced the partners' desire to control. The other original American partner attempted to buy its licensees, and "they were being assailed for antitrust violations." As a result, they lost interest in the JV and limited the licensing program.

**IMPACT OF CONTROL DEVICES**

The control devices used by PC were coded and evaluated in terms of their effectiveness for gaining control over the JV. Table 2 summarizes these. It indicates the frequency with which each control device was used within each time and its impact. Devices for controlling the management were used most frequently, then control of resources. Control through the Board of Directors was used less frequently but generally had a positive impact on increasing the control of PC over the JV.

During the second time period, PC attempted many different ways of gaining more control, but these devices did not have a strong impact until the last period. Attempts to control through the Board of
Directors generally had a positive effect, but note that control through the official documents was not used. Selection and Socialization of the Management proved to be effective; however, Agenda Setting with the Management was not effective and in fact had a negative effect. One of the unexpected effects was that it let the JV management know ahead of time what PC intended to do and gave the management time to build a contradictory case.

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INSERT TABLE 2 ABOUT HERE

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It should also be noted that although control through expertise is rated as positive, this did not prove to be particularly influential. The overall effect was to help PC gain control, but it worked more in conjunction with other control devices.

The timing of some of the devices should also be noted. Within the first time period, Selection and Control through People were used. These proved to be a valuable foundation for the devices that were used in later time periods. By having PC people in place, it helped to influence the impact of devices later on.

IMPLICATIONS AND CONCLUSIONS

Based on the substantial theoretical literature on control, the parent firms should utilize control devices that are well thought out and that aim to influence certain factors of the joint venture. The variables identified in the literature (contextual variables, desire for control, and control devices), were studied from the viewpoint of
TABLE 2

IMPACT OF PC CONTROL DEVICES

Frequency by time period

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<td>Control through</td>
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<tr>
<td>Board of Directors</td>
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<tr>
<td>A. Number of votes</td>
<td>4</td>
<td>3(+) ,(-)</td>
<td>2</td>
<td>2(+)</td>
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<tr>
<td>B. Agenda</td>
<td>8</td>
<td>8(+)</td>
<td>2</td>
<td>2(+)</td>
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<tr>
<td>C. Official</td>
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<td>Documents and</td>
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<td>Formal Reports</td>
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<tr>
<td>Control through</td>
<td>1</td>
<td>(0)</td>
<td>2</td>
<td>2(+)</td>
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<td>Management</td>
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</tr>
<tr>
<td>A. Selection</td>
<td>3</td>
<td>3(+)</td>
<td>5</td>
<td>5(+)</td>
</tr>
<tr>
<td>B. Socialization</td>
<td>2</td>
<td>2(+)</td>
<td>2</td>
<td>2(+)</td>
</tr>
<tr>
<td>C. Rewards</td>
<td>2</td>
<td>2(+)</td>
<td>2</td>
<td>2(+)</td>
</tr>
<tr>
<td>D. Agenda</td>
<td>6</td>
<td>4(-), 2(+)</td>
<td>6</td>
<td>(-), 5(+)</td>
</tr>
<tr>
<td>Control through</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Monies</td>
<td>2</td>
<td>(0), (-)</td>
<td>2</td>
<td>2(+)</td>
</tr>
<tr>
<td>B. Expertise</td>
<td>9</td>
<td>8(+), (-)</td>
<td>3</td>
<td>3(+)</td>
</tr>
<tr>
<td>C. People/Time</td>
<td>2</td>
<td>2(+)</td>
<td>4</td>
<td>4(+)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5</td>
<td>5(+)</td>
<td>43</td>
<td>6(-)</td>
</tr>
</tbody>
</table>

Code: + = positive impact  
- = negative impact  
0 = no impact
Glaser and Strauss (1967) to determine whether the existing literature had relevance for joint ventures and whether the interrelationships could be defined. The validity of the theoretical explanations presented in this paper should be explored further. However, this preliminary study shows that much of the control literature does not deal with how to control a subsidiary or a joint venture; it is about controlling operational levels of the organization. Consequently in attempting to analyze how a parent firm controls a joint venture, this study is truly exploring new areas and new theoretical models need to be developed.

What is apparent is that the parent company did not have a well-thought out strategy for controlling the joint venture. Instead what we find is that the control strategy emerged over time, and it resulted in surprises for the parent firms and for the joint venture management. Implied and explicit expectations were not met because of the changing desire for control by the parent firm PC. In fact much of the changing desire for control was caused by the changing of decision-making responsibility for the joint venture within PC: As it shifted from the corporate level to the product level, we find that operational concerns drove out the strategic concerns. The product area was most concerned about its own sales and products rather than broader strategic issues such as the impact of the joint venture on the industry or on other PC activities. Within PC, no one was overseeing the whole process. Changing motivations and mixed goals created conflicts on the part of the JV management and partners who felt that the rules of the game had changed.
There appears to be a diffusion effect of the control devices used, such that the devices used first served as a foundation for gaining control later. Thus, control through selection and socialization (within the first period) proved important control mechanisms in later periods. Control through the Board of Directors was important but seemed to be somewhat neutralized by a strong, entrepreneurial JV manager. There were few devices that were used to control the JV manager except selection. The parent firm seemed to be at a loss regarding how to control an entrepreneurial manager, short of removing him. Structuring devices appear to be only marginally successful as a true control device: they are good for reporting information but not for influencing JV behavior.

Few control devices attempted to influence the environment which was an important contextual variable that the parent firm did not recognize. For example, maintaining the JV might have increased demand within the industry and improved PC's customer relations. Consequently, it is not possible to theoretically discuss the relationship between the control devices and the environment.

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INSERT FIGURE 4 ABOUT HERE

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In order to understand what the variables mean and what relationships exist, Figure 4 was developed to show theoretically the relationship between perceived success, actual control, and parental desire for control. Control influences whether a joint venture is perceived as successful by the parent company. This particular joint venture had an
FIGURE 4

JV SUCCESS AND PARENTAL DESIRE FOR CONTROL

AMOUNT OF ACTUAL PARENTAL CONTROL

I

II

III

LOW

HIGH

DESERE FOR CONTROL

JV VIEWED AS:

SUCCESSFUL

SUCCESSFUL

PROBLEM

PARENTAL PUSH FOR:

DECENTRALIZATION

STATUS QUO

CENTRALIZATION

THROUGH CONTROL DEVICES:

- EQUITY SHARE
- CONTROL THROUGH LEGAL DOCUMENTS
- FORMAL REPORTING
- ALL TYPES OF CONTROL DEVICES
- CONTROL THROUGH BOARD OF DIRECTORS
- INCREASED EQUITY
- SELECTION
average 17% return on earnings throughout its life and it regularly paid dividends. However at times, it was not viewed by PC as successful because PC had a strong desire to control the JV but low actual control. Figure 4 shows that when desire for control matches the amount of control, the JV is viewed as successful. In these cases, there will be a push for decentralization within the parent firm. However when there is a mismatch, the JV will not be viewed as successful and there will be a push for centralization within the parent firm.

The findings of this study shed preliminary light on issues regarding the parental control of joint ventures. One finding that has become apparent is the predisposition of the parent firm toward wanting more control, and this may in fact be detrimental to the joint venture's ability to fulfill its mission. The benefits of high control to the parent firm include controlling the direction of the joint venture and controlling the profits earned. Nonetheless, there are also benefits to be gained by minimizing the parental influence on the joint venture. These are the entrepreneurial spirit of the JV, the potential for innovation and technology development, the enhancement of the image of the parent firm as a cooperative partner, and the continuation of the relationship with the partner firms. Consequently the dilemma still exists: designing a joint venture that is easy to control (few functions, one location, passive management, and tight controls) limits its long term growth potential, possible synergies, future growth, and innovation.
REFERENCES


Appendix I

European Industrial Manufacturing (EIM): An International Joint Venture

1946-1953 EMERGENT PERIOD

The European JV was formed in 1946 by three American firms (AMC, 25%; PC, 25%; Green, 12%) and four European firms (9.5% each). The European firms were licensees of AMC, and the expectation was that the JV would supply a quality, locally produced machine exclusively for them. The total initial investment of $1 million bought an existing facility. The partners were not as interested in the joint venture being profitable as they were in its supplying a locally produced, quality product.

Technology: Three product lines were produced initially. One was sold exclusively to the European owners and was under a license of AMC. Another product line had been produced in the factory before the war and the third line was brought in to fill up capacity and was licensed from PC. The type of technology used was a job shop in which each machine had to be individually designed according to the customer's needs. One manager said: "It's not a very highly protective technology. It's more a matter of know-how manufacturing experience, application knowledge, and that kind of thing. It's not high sophisticated technology."

Structure: The firm had about 920 people, of which about 125 were apprentices. It was located in one location and was basically a one-man show. It involved manufacturing, sales, and service.

Environment: Right after the war, no one was certain what would happen to European industries. Each country had its own regulations making exporting difficult. The market was immature and slow growing.

Strategy: The strategy was to produce a high quality machine that would be sold exclusively to the licensees of AMC. Other products would be produced primarily to keep the factory working to capacity. Loans were acquired from banks for $3 million and from the parents for $500,000. The JV was expected to pay dividends and royalty fees.

Leadership: Belman, the president of the company was from one of the licensee companies and was the person responsible for putting together the joint venture. The general manager was from the Dutch Company and the auditor was from PC. It was later believed by the partners that Belman intended to take over 100% ownership as soon as he could and that he was not committed to the JV success.

EIM Summary: The ability to control the JV based on the design factors indicate that the JV was only moderately controllable. The
technology, the uncertain environment, and the mixed motives of the leadership indicated that the joint venture might be hard to control.

PC: This was the first joint venture of PC although it did have two other overseas operations. The chairman was personally involved in setting up the JV which had a lot of visibility at home. PC thought the JV was a good opportunity to be ready for Europe's recovery. At formation, there appeared to be little desire on PC's part to have control of the JV.

1954-1962 GAINING CONTROL FROM OTHER PARENTS

During this period, Belman was removed from power and Casey, a PC research engineer, was made President. The JV was having troubles repaying its loans, and Casey worked to turn the JV around which he was able to do within three years including paying off the loans. Casey was chosen as President since the largest volume of business the JV could expect to generate was from PC related products. Its profit after tax for this period was about 17% and it maintained dividend payments. In 1960, PC extended an offer and was successful at increasing its equity position from 25% to 75%.

Technology: The basic job shop approach was retained but new products and product lines were added that were not part of the original agreement. These were under license from PC and other American firms that were not JV partners. EIM used its research and design staff to modify the machines for its European customers. In many cases the EIM design was judged superior to the original.

Structure: Casey included several sales and production offices during this time period. Consequently the JV wholly owned four operations outside of its host country. It moved toward product diversification.

Environment: The European industrial environment was good, and growth occurred. The EEC was formed. The environment was slowly growing with few competitors, and was stable.

Strategy: EIM attempted to avoid layoffs by keeping its plant at full capacity by making many different machines. It sometimes acted as a European sales agent for PC. It started to compete directly with British Company with an EIM technologically superior product.

Leadership: Casey had an entrepreneur's outlook, and he personally supervised the product diversification and growth of EIM. He steadily expanded EIM's product and market scope and if any of the partners objected, he was skillful at getting the other owners to side with him. Casey felt that if he could increase PC's equity position, he would have more freedom to continue with his product diversification strategy. He encouraged the EIM personnel to think of themselves as a separate business and to develope its own culture.
EIM Summary: PC's equity position increase meant it had achieved gaining control over its partners. However, the JV was becoming more independent through increased product lines, increased technological expertise, several locations, and its own culture.

PC: PC was experiencing growth in its home markets and abroad. EIM was losing its visibility and now reported to an International Division: the PC President was no longer as actively involved although it was due to the President's personal negotiations that the equity change occurred. When EIM requests were made for help in redesigning products for the European customers, EIM was led to believe that they would have to do it themselves. PC's strategy was diversification and the business line in which EIM was placed accounted for about 30% of corporate sales.

1963-1972 CONTROL OF THE JV

The partners continue to exert some influence over EIM's future by voting on the board and buying EIM's products. The major issue during this time period was EIM's independent strategy. In 1970 Casey was transferred back to PC, and another PC manager was brought in. By this time EIM was competing directly with AMC, PC, British Co. and Dutch Co.

Technology: EIM's technical expertise continues to produce superior products. AMC buys machines from them to import into the American market. Casey gets PC's royalty payments reduced on some products and negotiates to have PC pay the JV royalty payments on other product lines. EIM develops new machinery.

Structure: The structure retrenched from last period since the French operation was closed.

Environment: The European industrial environment was becoming more mature and more competitive. AMC purchased the Dutch Co. but was under antitrust scrutiny.

Strategy: Product diversification proved to be less successful as a strategy during this period. Although EIM thought of itself as the exclusive European sales agent for PC, PC felt EIM did not have the expertise to sell and service all of its varied products.

Leadership: Casey continues to fight for EIM's self-determination by arguing that PC does not understand the European business environment. In 1970, the new President was willing to comply with PC's desires.