Exploration of relational factors: Sino-foreign joint-venture partnering

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To link to this article DOI: http://dx.doi.org/10.1108/JSMA-08-2014-0069

Publisher: Emerald

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Exploration of Relational Factors: Sino-foreign Joint Venture Partnering

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Abstract
Purpose - Despite recent threats of economic contraction, China still offers attractive opportunities for foreign companies seeking to expand their business activities through joint venturing (JV) partnering entry strategies. Recent research has indicated a growing recognition of the importance of relational factors in JV partnering. This paper builds on recent research findings that identify critical relation success factors in JVs and explores these in the context of a Hong Kong-based civil aviation services company seeking to expand business activities in Greater China.

Design/methodology/approach - While the extant management literature focuses primarily on factors relevant to the inter-partner relationship between partners in the formation stage of a joint venture, this research takes a dynamic stakeholder perspective in respect of the relevant relational factors over the evolution of a partnership. The research described in this paper is based on a case-based study that identifies and examines the relevance and importance of uniquely Chinese factors such as guanxi, renqing and mianzi in the specific context of a strategic partnering relationship.

Findings - This phenomenological study provides empirical evidence of critical linkages of these to intrinsically Chinese notions of guanxi, mianzi and renqing – it links these to key strategic partnering success factors identified to be trust, conflict resolution, commitment and cooperation. This study thereby reinforces the importance of the uniquely Chinese relational context in cross-border JVs. Moreover, the research findings suggest that these factors underpin the dynamic bi-directional stakeholder relationship in a Sino-foreign strategic partnership.

Originality/value – This study conceptually links the uniquely Chinese relational factors (guanxi, mianzi and renqing) to key success factors supporting the establishment of a strategic partnership in a Sino-foreign context; moreover, it contributes empirical evidence substantiating the proposed conceptual linkage.

Introduction
Since launching its open door policy in 1979, the rapidly growing Chinese economy has presented foreign investors with both business opportunities and challenges (Ding, 1997). China responded swiftly to the global economic downturn in 2008 through a series of coordinated monetary, fiscal and bank-lending
measures. China’s gross domestic product (GDP) is estimated to grow by 7.5 per cent in 2012. However, despite rapid growth in recent years, China’s investment-led growth is being viewed by many to be non-sustainable. China’s leadership consequently introduced its 12th Five-Year Plan (12th 5YP) in 2011. The plan foresees a rebalancing of China’s economy through measures aimed at increasing consumption activity from approximately 35 per cent of GDP in 2010 to 50 per cent by 2015. This move promises to open new opportunities for foreign companies in the consumer goods and service sector (Report, 2012: Foreign Commercial Service and U.S. State Department). Entry into China remains a formidable strategic challenge to most foreign companies. The U.S. State Department Report (2012) identifies three critical issues:

- **Predictability of doing business in China:** Inconsistencies and opaqueness of China’s current legal and regulatory system can make investment difficult. Intellectual property protection remains an issue.

- **Protectionism on the part of the Chinese government:** China’s economy in many sectors more closely resembles mercantilist rather than a market-oriented one. Many state-owned enterprises benefit from government intervention that favours local firms and promotes export over import activity.

- **Central planning economy:** China remains a planned economy, retaining the apparatus that includes five-year plans, centralized setting of economic goals, strategies and objectives.

Despite these issues, China continues to offer immense opportunities to foreign firms in a number of key market sectors. One of these is the transportation and related services sector. A number of conceptual frameworks discussed in the international business literature can be used to identify suitable market entry strategies. For example, Dunning’s *ownership-location-internalisation* (OLI) framework, sometimes also referred to as the *eclectic paradigm* (Dunning, 2000) provides guidance on how firms might achieve balancing location-specific advantages against the firm’s own specific potential advantages when considering taking up activity in China. Furthermore, firm (or subsidiary) specific advantages (FSAs) and country-specific (CSAs) may play an important role. The *FSA-CSA* framework examines the trade-off between country (or regional) advantages (CSAs) in light of specific advantages a firm (FSAs) seeking entry into that country might exploit (Rugman and Verbeke, 2001). Rugman and Verbeke argue that subsidiary-specific advantages imply location-bound advantages that incorporate tacit knowledge that is fundamentally context-specific. Context specificity, moreover resonates with aspects of that knowledge that is locally embedded and path dependent, amongst other things, on the firm’s earlier organizational trajectories. Mobility barriers make this sort of knowledge difficult to disperse across and within the subsidiary (Nonaka and Takeuchi, 1995). Prevailing organizational ambiguity, however, often poses challenges to transformation of that organizational knowledge into actionable knowledge in the form of capabilities, particularly when these are mobilized (Baumard, 1999). In particular, the firm’s *relational capabilities* are at stake and increasingly viewed as critical factors for the successful realisation of its internationalisation strategy. These are particularly important for MNEs seeking business opportunities in China, even as ways of doing business there are becoming increasingly westernized (Chua, 2012). Relational capability supporting collaboration across cultures has been identified as a key to successful cross border business ventures (Ang and Van Dyne, 2008; Earley and Ang, 2003; Shapiro, Ozanne and Saatioglu, 2008). Metacognition has emerged as an approach to assessing cultural assumptions, preparing for intercultural activity, and adjusting assumptions during and after a given interaction (Ang, Van Dyne, and Tan, 2011; Chua, Morris and Mor, 2012; Luo, 2012). Ultimately, however, for foreign executives keen on pursuing partnering opportunities in China, establishing the trust of their Chinese counterparts in their capabilities and competence remains a key challenge.

The establishment of trust in cases involving business forays of foreign executives into China are typically discussed in the context of *guanxi*, commonly associated with personal connections between people doing business. Other factors such as *mianzi* (‘keeping face’ in a relationship) and *renqing* (the moral obligation to nurture that relationship) are often brought into association with *guanxi*. The notion
of trust is intrinsic to all three factors. Indeed, the management literature deals with the relevance of trust in situations involving Western business executives seeking business opportunities in China (Chua et al. 2008; Jiang et al., 2011). A number of studies have sought to compare approaches taken by Chinese and western managers (Chua et al., 2009; Lin et al., 2009; and in particular, the role of commitment-building in the context of international joint ventures (Li et al., 2009). Relatively little, however, has been reported on the situation involving ethnic Chinese from regions outside of China seeking to establish business ventures in China – and in particular, the role of guanxi in the context of trust-building in establishing strategic partnerships – other than a recognition that “individuals who share a cultural background will invariably enjoy a common ground of values and norms, which can be a powerful basis of interpersonal understanding” and that “…there seems to be a presumption on the part of native Chinese that Chinese ethnicity cuts through the cultural differences that arise from having been born and raised in different countries” (Chua, 2012). Despite a paucity of insight offered in the management literature on this point, it is an important one for ethnic Chinese – run businesses seeking entry into China through joint venturing.

Furthermore, the roles of guanxi, mianzi and renqing in the context of stakeholder relationships relevant to the success of strategic partnering remain largely unexplored. A particular contribution of this paper is the evidence it provides substantiating the bi-directional modelling approach to stakeholder theory proposed by Money et al., (2012) and MacMillan et al. (2000); this is shown to be particularly appropriate to understanding the roles of the three relational factors in the context of Sino-foreign joint ventures.

The Chinese Civil Aviation Industry

China currently represents one of the most rapidly growing civil aviation markets in the world. It has experienced double digit growth in recent years and is projected to average 7 per cent over the next 20 years (U.S. State Department Report, 2012). Three key challenges threaten to stall this growth: an infrastructure that is less than adequate, airspace restrictions that limiting air transport activity, and a skilled workforce shortage. In November 2010 Chinese civil and military authorities jointly announced a move to liberalize Chinese airspace below 4,000 meters by 2020. This opens immense opportunities for foreign involvement in the civil aviation services sector. China’s 180 civil aviation airports already include the world’s second busiest (Beijing). The Chinese government plans to expand this number to 244 airports by 2020. The expansion will locate 80 per cent of China’s population and 96 per cent of its GDP within 100 kilometres of an airport. China’s current airport system is experiencing serious growth restrictions brought on by congestion at its top three airports (Beijing, Shanghai, and Guangzhou) handling almost one third of all traffic. In the five years through 2012, revenue for the civil aviation industry in China has been growing at an annual rate of 9.6%, driven by the rapid development of the Chinese economy.

Civil aviation services in China: JVs, key success factors, and stakeholder relations

The civil aviation ground services sector is a rapidly growing segment of the Chinese aviation industry. However, restrictions imposed through regulation threaten to hamper business opportunity in this sector. The Civil Aviation Administration of China (CAAC) plays the role of the regulator in the Chinese civil aviation industry. Its mandate covers all air service agreements, standards and safety as well as control of airport charges through imposition of tariff standards (CAAC, 2007). Foreign investment in aviation and transportation is currently restricted to partnering with a local Chinese company (Roules and Chen, 2010). Joint ventures appear to be the preferred form of entry: Beijing Capital Airport, Guangzhou Baiyun Airport, and Chengdu Shuangliu Airport have standing joint ventures with foreign partners in ground services. Shanghai Airport Ground Services is cooperating with Cargo Warehouse and Lufthansa in a further joint venture.
Joint ventures (JVs), defined as ‘a legally separate organisational entity created by two or more independent parent firms, which aim to pursue a particular business project’ link foreign investors with established local Chinese partners (Clark and Soulsby, 2009; Vanhonacker, 1997). JVs account for over 50 per cent of foreign direct investments in emerging markets, with many foreign investors viewing JVs to be an effective way to share risks and to access local capabilities (Shenkar and Reuer, 2006). However, JVs are not without risk. Research evidence has indicated a relatively high failure rate in JVs (Wilson and Brennan, 2008; O’Hagan, 2006; Liang, 2008; Wilson and Brennan, 2008; Yan and Zeng, 1999; Beamish and Delios, 1997). While 55 per cent of JVs failed within 3 to 5 years, only 25 per cent of cross-border JVs were successful where partners had overlapping geographical positions (Harrigan, 1986; Bleeke and Ernst, 1995). Differences in culture, infrastructure, economic development and government policies exacerbate the complexity of JV management (Duan and Juma, 2007).

As foreign firms seek to increase their investment in China, they are faced with the challenge of JV partnering (Li et al., 2009). Hence, there has been heightened interest in understanding the key success factors critical to the success of cross-border JVs. Qiu (2005) concludes that three factors are critical to successful JV partnering; all of them are related to the partner relationship. The key success factors proposed by Zheng and Larimo (2010) were found to be particularly amenable to this investigation and served as a basis for the key success factor analysis described subsequently in this paper. Enhanced understanding of the inter-partner relationship is thus a prerequisite for success of cross-border JV partnering (Wilson and Brennan, 2008). Other studies have indicated that a lack of management understanding is a major factor in failed Sino-foreign JVs (Li, 2000). Other research findings confirm the important role of inter-partner relationship in improving JV performance (Tiessen and Linton, 2000; Luo and Park, 2004). Table 1 summarizes some of the current management thinking on success factors in JV partnering.

However, there is still a lack of research on the dynamics of inter-partner relationship in JVs. Much of existing literature focuses on motivations and strategies of foreign investors to enter into a JV at the formation stage. The actual management of ongoing inter-partner cooperation has received less attention (Liang, 2008). Scholarly reporting on the importance of relationships between JV partners tends to focus on the measurement of JV performance while neglecting the effect of relational factors in JV management (Wilson and Brennan, 2008).

Clearly, stakeholder considerations play an important role in any joint venture partnering relationship. Various stakeholder typologies have been proposed. The Mitchell, Agle and Wood (1997) typology identifies seven key stakeholder groups in terms of their (1) power to influence decisions, (2) urgency of claim, and (3) legitimacy of claim. This framework was used in the subsequent analysis of the key stakeholders relevant to the study presented in this paper.

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The case studied in this paper concerns a Hong Kong based civil aviation services provider; for proprietary reasons, this firm shall remain anonymous – it will be referred to as CASCO (acronym for civil aviation services company).
Table 1. Summary of the management literature on key success factors (KSFs) in joint venture partnering

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Aspect investigated</th>
<th>Methodology</th>
<th>Key Success Factors identified</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Product relatedness * Analyser strategy * Location advantages * Management practices * Year of experience in China * Contractual design</td>
</tr>
<tr>
<td>Zheng and Larimo (2010)</td>
<td>Key success factors for JVs in China</td>
<td>Case study of 9 Finnish-Chinese JVs operating in China</td>
<td>Performance determinants at JV operation stage: * Partner commitment * Trust * Conflict * Conflict resolution * Cooperation * Bargaining power * Control * Justice * Age of JV</td>
</tr>
<tr>
<td>Qiu (2005)</td>
<td>Problems of managing JVs in interior China</td>
<td>54 interviews conducted from 24 JVs in Shaanxi province in China</td>
<td>Management problems for JVs: - Recruitment and training - Dismissal of employees - Energy supply - Development agenda</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Success factors derived from the findings: * Choosing the right partners * Maintaining a good relationship with partners * Making efficient use of personal networks and political institutions</td>
</tr>
<tr>
<td>O’Hagan (2006)</td>
<td>Key success factor model for HSBC JVs</td>
<td>8 interviews and 150 questionnaires to HSBC employees associated with JV business</td>
<td>** Partner relationships * Competition with partner * Partner strategy * Partner selection * Trust * Culture * Aligned strategic motives</td>
</tr>
</tbody>
</table>

Key: ** Most important factor, * Partner-related factors, - Other factors

**Case: Hong Kong – based civil aviation ground services firm seeking entry into China**

CASCO has been providing ground services at Hong Kong International Airport for 65 years. Prior to 1998 it enjoyed the advantage of premium pricing and stable business due to a protected market status. With increasing competitiveness of the aviation industry in Hong Kong, CASCO has been facing increasing difficulties in maintaining its profit margin in the past 10 years. In 2000, it launched a ‘China strategy’ that aimed at expanding its business into China. In 2000, CASCO initiated a JV discussion with Beijing Airport; this attempt failed... A second attempt to form a JV was initiated in 2006. By then, numerous competitors of CASCO had already established JVs in China. CASCO sought a JV in a second-tier city in China which was believed to be easier to manage; the JV’s business scale was to be less extensive than the one in Beijing. In 2007, CASCO opted for an opportunity at an international airport in City K. This airport is owned by the state-owned airport group (SOAG), which owns ten other airports. By 2009, CASCO had successfully established its first Chinese JV with SOAG. It was to CASCO’s move...
into Greater China with SOAG playing a critical role in CASCO’s business aspirations for expanding its business in China.

CASCO’s China strategy on entering into the JV with SOAG was two-fold: Firstly, the JV in City K airport was to provide opportunity for expansion of its business scope to other service areas, such as line maintenance, airport bus, and cargo terminal. Since CASCO’s business activities in Hong Kong are limited to passenger and ramp services only, the intention was for its Chinese JV partnership to enable expansion into an extension of its ground services offering. CASCO’s second aim was to re-position itself as a one-stop-shop ground service provider in Greater China; its ambition was to set up at least one new JV in a different Chinese airport each year over a five year period. Its JV in City K was to serve as a reference for further partnerships. However, this has not materialized; since its formation in 2009, the JV has encountered numerous difficulties. Critically, CASCO has failed to gain support from SOAG for extending its service scope as originally hoped; its Chinese partner has been hesitant in recommending CASCO to the Chinese airports in other cities as a good JV.

Despite initial optimism that viewed its JV with as an ideal JV partner relationship, the JV encountered a number of difficulties. Differences in the strategic intentions of SOAG and CASCO to enter into a JV relationship also became apparent. In SOAG’s view, CASCO was seen to be too profit-driven. In one meeting, the president of SOAG stated: “CASCO only looked at financial returns such as IRR or payback year in decision making, but SOAG being the state-owned enterprise places a higher priority on social responsibilities” (Liu, personal communications). Table 2 summarises some of the tensions encountered to date; the findings summarized in the table emerged from preliminary, exploratory discussions with both parties involved in the JV.

Table 2. Summary of comparative JV partner positions in terms of selected power positions (Note: ‘SOAG’ refers to the ‘state owned airport group’; ‘CASCO’ refers to the ‘civil aviation services company’)

<table>
<thead>
<tr>
<th>SOAG (Chinese partner) / power position*</th>
<th>Source of power</th>
<th>CASCO (Foreign investor) / power position*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full coverage of services range</td>
<td>H</td>
<td>Startup in China</td>
</tr>
<tr>
<td>Monopolistic control in the province</td>
<td></td>
<td>Business size is much smaller than SOE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>in China</td>
</tr>
<tr>
<td>At least 20 airports of comparable</td>
<td>L</td>
<td>Relatively few foreign investors are</td>
</tr>
<tr>
<td>size welcome foreign investors</td>
<td></td>
<td>interested in JVs in China</td>
</tr>
<tr>
<td>JVs one of the strategies to enhance</td>
<td>H</td>
<td>Keen to invest in China to capture the</td>
</tr>
<tr>
<td>and upgrade quality service and</td>
<td></td>
<td>growth opportunities</td>
</tr>
<tr>
<td>prepare for new airports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constrained by the government</td>
<td>M</td>
<td>Flexibility and agility to change</td>
</tr>
<tr>
<td>regulations; less flexibility to develop</td>
<td></td>
<td>Responsive to market changes</td>
</tr>
<tr>
<td>own activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAAC stipulated that airports do not</td>
<td>L</td>
<td>Driven by profitability motive</td>
</tr>
<tr>
<td>to take on operational responsibilities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It also required that airports maintain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>smooth operation at all times</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong guanxi at provincial level;</td>
<td>H</td>
<td>Leverage of contacts</td>
</tr>
<tr>
<td>rich contacts at national level</td>
<td></td>
<td>Reach of important</td>
</tr>
<tr>
<td></td>
<td></td>
<td>stakeholders in the target</td>
</tr>
<tr>
<td></td>
<td></td>
<td>market</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compared to state-owned enterprise, the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>network in China is relatively weak</td>
</tr>
</tbody>
</table>

*Key: Power index: High (H), Medium (M), Low (L)
Research questions
The research questions derived from the foregoing analysis are:

1. Which key relational factors are particularly relevant to the success of CASCO’s JV with SOAG given the constellation of the two partners (i.e. established Hong Kong – based player seeking entry into China)?
2. What is the dynamic nature of the stakeholder relations in view of these factors?
3. What are the strategic impact and implications of the key relational factors in view of the stakeholder positions identified for CASCO?

Hypotheses

H1: Relational factors linked to the uniquely Chinese context such as guanxi, renqing and mianzi play a critical role in building successful business relations in Sino-foreign JV partnerships.

H2: These factors are intrinsically linked to the notion of trust and commitment and underpin the stakeholder relationship in a Sino-foreign JV partnership.

Research methodology
The research methodology deployed for this research consisted of qualitative, semi-structured interviews of key stakeholders involved in the JV between CASCO and the SOAG. A total of 16 interviews were conducted; these were segmented in the following four groups, which consisted of:

1. Senior managers of CASCO to solicit the views of the foreign parent company;
2. Senior managers of SOAG to represent the views of the Chinese partnering company;
3. Members of the board of directors representing major stakeholders within the CASCO-SOAG JV; this group comprised both CASCO and SOAG executives;
4. Members of the JV management team with direct responsibility for the JV; this group comprised both CASCO and SOAG managers.

The research objectives were: (1) to identify key stakeholder groups and their roles in the JV relationship; (2) to examine the nature of the factors important to the success of the relationship; and (3) to examine the dynamic nature of the stakeholder relationships in the JV. The research design comprised 10 questions that solicited views of stakeholder positions within the JV. The subsequent analysis and interpretation of the insights gathered in the field research focused on making sense of these in the greater context of the research questions posed at the outset. Analysis of the interview transcripts was carried out with the help of key word coding that was used to identify common themes and to link the findings with the relevant analysis frameworks and concepts reviewed.

Research Findings
Table 3 presents the summary of findings. The table summarizes the key success factors relevant to the success of the CASCO-SOAG JV partnership. The key success factor analysis is used to examine the performance of CASCO relative to two of its competitors (A and B) in China. Note that both competitors are non-Chinese providers of global civil aviation services. The numbers reflect performance measures on a scale of 1 (poor) to 9 (excellent), and represent perceptions of the stakeholders queried in the interview sessions. The criteria for the evaluation were adopted from Zheng and Larimo (2010).
Table 3. Key success factor (KSF) analysis and comparative competitor analysis on the basis of KSFs; focus on the operational stage of a JV; based on Zheng and Larimo (2010). Note: Both competitors A and B are non-Chinese global civil aviation services providers

<table>
<thead>
<tr>
<th>JV Operational Stage</th>
<th>Competitor A</th>
<th>Competitor B</th>
<th>CASCO</th>
<th>Further details</th>
</tr>
</thead>
<tbody>
<tr>
<td>O1. Commitment</td>
<td>6</td>
<td>3</td>
<td>5</td>
<td>Competitor B was criticized by its JV partner for lack of commitment in China</td>
</tr>
<tr>
<td>O2. Bargaining power</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>Competitor B is viewed to have lower bargaining power because it is seen as less supporting to the JV</td>
</tr>
<tr>
<td>O3. Control</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>All seconded own staff to management team of JV; Competitor A employs more local people after years of operations</td>
</tr>
<tr>
<td>O4. Trust</td>
<td>8</td>
<td>3</td>
<td>4</td>
<td>Negative relationship reported between Competitor B and its JV partner. CASCO also struggled on building trusting relationship at City K</td>
</tr>
<tr>
<td>O5. Justice</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>Competitor A Management team a neutral position; no favouring of any stakeholders</td>
</tr>
<tr>
<td>O6. Conflict</td>
<td>6</td>
<td>3</td>
<td>5</td>
<td>Competitor A and CASCO: demonstrated ability to resolve conflicts promptly; tend to resolve issues rapidly relative to competitor B</td>
</tr>
<tr>
<td>O7. Conflict resolution</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>Tensions and conflicts led to Competitor B dissolving its JV</td>
</tr>
<tr>
<td>O8. Cooperation</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>Superior relationship and cooperation with JV partners by competitor A and CASCO compared to competitor B</td>
</tr>
<tr>
<td>O9. Age of JV</td>
<td>8</td>
<td>5</td>
<td>4</td>
<td>CASCO established JV only in 2009; JVs of competitor A and B older than 10 years</td>
</tr>
</tbody>
</table>

Note: Performance measure reflecting how well firm delivers on the KSF (1 = poor; 9 = excellent)

Table 4 summarizes the findings derived from the analysis of the interview data. It indicates key differences in the perceptions of the various stakeholder groups interviewed (senior management including both CASCO and SOAG managers; stakeholders charged with the operationalization of the JV and its board of directors).

Table 4. Summary findings for various CASCO-SOAG JV stakeholder groups interviewed (see Notes for explanations)

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Senior management</th>
<th>JV Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewees¹</td>
<td>CASCO/SOAG (N=8)</td>
<td>Board of Directors (N=4)</td>
</tr>
<tr>
<td>Stakeholder typology²</td>
<td>Dependent</td>
<td>Definite</td>
</tr>
<tr>
<td>Relationship scores³</td>
<td>5.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Key relational drivers</td>
<td>Trust-enhancing behaviours</td>
<td>Equity of exchange</td>
</tr>
<tr>
<td>Success factors⁴</td>
<td>Commitment, trust, conflict resolution, cooperation</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
1. Interviewed groups; number in brackets indicates number of interviewees
3. Scores derived from polling of perceived strength of relationship; respective stakeholder group in relation to other two groups (Likert scale: 1 (weak) – 10 (strong))
4. Key success factors identified (see also Table 3)
The analysis of the findings derived from the analysis of the interview data with senior managers of both companies and those managers indicate the importance of the relational capital in forging a successful JV. Three intrinsically Chinese relational notions emerged in this analysis: the notions of guanxi, mianzi and renqing. The three notions are linked conceptually as much as they linked to stakeholder positions. Guanxi, which implies ‘friendly relationship’, ‘deep understanding’ and long term trust’ was viewed to be a supporting mechanism in a partnering relationship. The importance of guanxi to a JV partnership emerged in the discussions with the companies: firstly, guanxi affected external relations with business partners and relevant government bodies; secondly, it affects relevant relations internal to the JV. Guanxi was viewed to be of particular significance to CASCO in its aspiration to expand its business scope within China. Mianzi (‘face’) and renqing (‘reciprocity’ as in an unpaid obligation) were also accorded importance. Mianzi is a mechanism that protects self-respect and individual identity. The notion of ‘saving face’ is closely linked to the notion of guanxi: activities focused on saving face serve to protect the individual’s role in a guanxi network; at stake are preservation of individual identity and social status of the individual in that network. Renqing is also linked to guanxi; it invokes the Confucian notion of reciprocity, whereby a provider of a favour expects repayment of that favour in the future. Figure 1 shows the relationships between these notions suggested that the findings of this study appear to indicate.

![Diagram of relationships between stakeholders, key success factors, and supporting mechanisms](image)

**Figure 1.** Findings summarized schematically; showing dynamic interactions between stakeholders, key success factors for successful JV partnering, and supporting mechanisms (guanxi, renqing and mianzi)

**Summary and conclusions**

This study identifies and confirms *trust, conflict resolution, commitment* and *cooperation* as key success factors in the formation and operations of a JV partnership. More importantly, however, this study indicates how in the Chinese context, these key success factors are inexplicably linked to three further factors: guanxi, mianzi and renqing; renqing and mianzi are shown to be instrumental in resolving issues arising in the strategic partnership relating to trust / conflict resolution, and commitment / cooperation,
respectively; *guanxi* is shown to be a key factor in establishing a relational basis for the transaction overall. The research findings thus support both hypotheses. Enhanced understanding the role of *guanxi* in the context of strategic networks enables new insights for foreign companies when seeking to entry into China. In CASCO’s context, this understanding – in particular, the dynamic interplay between the factors - provides insightful guidance for fine-tuning its interaction with the SOAG. In practice, this translates to enacting measures that ensure that the SOAG does not lose face during an exchange of equity (*mianzi*); that the social status and reputation of the SOAG is to be respected despite the fact that CASCO may possess superior strategic assets. Base on these findings, CASCO would be advised not to focus on short-term return from its relationship with the SOAG (*renqing*).

A question left unanswered by this research relates to the significance of the fact that CASCO, in fact, represents a Hong Kong Chinese company; in particular, whether this has any impact on the partnering relationship with its Chinese business partners – and if so, the impact and implications for the success of the joint venture.

**References**

U.S. and Foreign Commercial Service and U.S. Department of State


