

Investors, in addition to both the foreign and the local partners, obviously seek to exploit the opportunities of doing business in Vietnam and see the international joint venture (IJV) as an optimal business vehicle— provided that there is more predictability in the launching of a successful enterprise. This study has placed relationship as a primary operational tool for establishing an organizational foundation leading toward a successful IJV in Vietnam. Relationship-Control mechanism was determined to be influential to the successful operation of an IJV through internal and external relationships.

Keywords: Relationship, control mechanism, success, International Joint Ventures, Vietnam.



RELATIONSHIP-CONTROL MECHANISM IN VIETNAM-BASED INTERNATIONAL JOINT VENTURES

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Introduction

An international joint venture (IJV) is an extremely attractive mode of entry for any international organization that wishes to participate in Vietnam's fast-paced business environment. And for the past ten-plus years, this is indeed what numerous international organizations have done. A select few international organizations have achieved notable success participating in an IJV whereas others have had a modicum of achievement while the majority eventually fails. Divining the specific determinants which have helped an international organization succeed was the premise behind this project and formed the parameters

for each case study. Failure was also viewed as a valuable teacher, but in business circles understanding the foundation for failure does not always elicit the most candid responses nor are participants enthused to publicly share the reasons for their lack of success.

An IJV, for purposes of clarification and with respect to this study, has been viewed as 'a separately legal business venture that involves two or more entities with different nationalities working together to achieve mutually agreed upon business objectives' [4]. There are, on paper, good business and accounting reasons for an international organization to create an IJV with a domestic company which possesses complementary capabilities and resources (e.g., distribution channels, local financing). And even though there has been no previous research to

determine the cause of IJV success or failure, IJVs in Vietnam have become an increasingly common sight.

Concomitant with the growing pervasiveness of IJVs in Vietnam is their uncommonly high rate of failure. During a two year period from 2005-2006, according to the Statistical Office in Ho Chi Minh City (HCMC)¹, there were 42 failed IJVs' (all officially licensed) in HCMC- the biggest city in Vietnam- with total capital of 694.9 million USD. The primary reason (42%) for failure was attributed to financial losses. There is some documentation that suggests that the failure rate of all IJVs (irrespective of their location) could be as high as 70 percent [4]. A failure rate above 40% could be viewed as unsustainable over the long run unless there are some additional undetermined factors that encourage businesses to accept a risk greater than a 50/50 ratio. If the 70% failure rate is true and valid for all fiscal years leading to 2009, and in any location such as Vietnam, it forces the question why any business would commit to an IJV. Are the economic returns so significant that a 30% chance of success would allow continuation of this type of economic vehicle? At the very least there needs to be some delicate discussion as to why the failure rate remains so high and what can be done to mitigate this problem for new IJVs.

Literature review

Prior to developing the methodology for this study and identifying the specific companies which would serve as the subjects

for the case study a review of previous research was conducted. The primary purpose of this research was to determine if any parallel studies had been conducted in Vietnam or in any other developing countries which could offer insight into this project. The only known study conducted in Vietnam was performed by [1]. With a sample of 65 IJVs in Vietnam, the researchers discovered that a reliable connection between resource contribution and control—or more specifically control mechanisms—were necessary for each partner to obtain an optimal return while simultaneously not-misusing any resources.

A control mechanism refers to the means by which policies, procedures and relationships are exercised and subsequently examined in order to obtain a better understanding how they can affect the performance of IJVs. Control is considered to be one of the primary means that IJV partners and managers will use to guarantee that IJV operations [6] will lead to organizational success—as well meet the established goals of all partners. The review of existing research on the proliferation of IJVs in developing countries (other than Vietnam), noted that the prevalence of proper control mechanisms was a re-occurring theme in the majority of the reviewed studies. Identifying some of the more popular and effective control mechanisms from IJVs in other developing countries would provide a foundation from which to compare and contrast what would be ultimately uncovered in the multiple IJV case studies from Vietnam.

Reference [8] was a study of 98 IJVs that were located in 12 Asian countries (not all of them being classified as developing countries). They determined that if one partner tried to obtain a dominant position over organizational control mechanisms during any part of the IJV operation, such an action could be viewed as a high risk factor influencing the termination/failure of the IJV. China, which hosts a plethora of IJVs, has provided additional opportunities for understanding the role that control mechanisms exercise over the operation of an organization, and most particularly as it pertains to relationships.

In Mandarin Chinese the term *guānxi* literally means relationships, and it ostensibly defines any type of relationship. Reference [3] defines *guānxi* as the process of social interaction. But within Chinese business circles *guānxi* is understood to be a one-word descriptor for a network of relationships among various cooperating entities. According to [7], when a *guānxi* network violates bureaucratic norms, it can lead to corruption, and can form the basis of a patron-client relationship. *Guānxi* can also influence individual and organization relationships beyond those which are financially based. There is an argument that can be made that corruption, while technically illegal, generates consequences which in select business cultures are not regarded in negative terms. In China, according to a recent study on the BBC website², until March 2008, 2,932 out of 3,220 (91%) of the people who have financial

¹ http://www.pso.hochiminhcity.gov.vn/so_lieu_ktxh/2006/Xay_dung_co_ban_va_dau_tu_nuocngoai/0613.htm

² http://www.bbc.co.uk/vietnamese/world/2009/04/090421_china_richest.shtml



assets (excluding those invested overseas) of more than 100 million RMB are the relatives of senior government leaders. Many of them base their business operations upon family power- a kind of *guānxi*- to legally obtain illegal assets.

Although both academics and practitioners in the west are increasingly interested in *guānxi*, it is still difficult to apply it to western business practices [3]. But that does not appear to be the case with Vietnam. China and Vietnam have had a mercurial relationship for thousands of years. There have been extended periods of collaboration followed by periods of military conflict and centuries of long occupation. As a consequence the Vietnamese culture has been greatly influenced by the Chinese and Chinese business concepts, such as *guānxi*, have had considerable influence within the operation of organizations throughout Vietnam. Even though *guānxi* is not widely practiced or even understood in the West, the concept of relationship as a control mechanism has been well studied and has been determined to

be exceptionally influential in the success of an IJV [5, 12, 9, 2, and 6].

Despite the important role that control mechanisms play within a typical IJV, previous research suggests that there is still a lack of transferable information which can be directly applied to Vietnam's relationship with IJVs. The primary question which remains to be answered in this study is if relationship as a control mechanism has served as a positive influence in IJVs in other countries, what role (if any) does it perform in meeting the operational expectations of IJVs in Vietnam?

Research methodology

With the stated purpose of this study being the acquisition of knowledge and the development of a systematic understanding on the role of control mechanisms for IJVs in Vietnam, this study employed the multiple case study method by examining seven successful IJVs in Ho Chi Minh City— Vietnam's largest and most economically

dynamic metropolitan area. Reference [13] suggested that six to ten case studies are required as an acceptable population to survey. The exact number would specifically depend upon the accessibility of an organization's proprietary information.

The quantity of open-ended questions varied depending upon the respondents' time availability and conversational ability.

But for consistency the same number of foundational questions was asked of all subordinate staff. The degree of formality during the interview process was low particularly with middle managers and operational staff. In Vietnamese culture, an informal meeting is helpful when the intent is to obtain information that cannot be gathered in formal ways. Senior managers are much more careful and more reticent providing official information which could affect the company's reputation and brand. Because of this, the interviews with senior management were generally much more formal. Formality had no effect upon the ability and willingness of senior staff to provide the interviewer with as much organizational information as required by the procedures established for the study.

In all cases, the respondents had extensive experience working for an IJV and/or were personally involved in IJV control. The validity of the interviews depended

upon the willingness of the respondents to candidly reveal their views and opinions, and the interviewer's ability to understand them correctly. Draft reports of each case study representing a particular Vietnamese IJV were given to the top managers or middle managers in each respective company who were authorized to ensure that the information was recorded accurately.

In order to confirm the reliability and validity of this study, two types of triangulation were applied: methodological triangulation and data triangulation. Methodological triangulation uses multiple methods of data capture, including: in-depth interviews, non-participation observation during visits, and analysis both of companies' internal and external documents. Internal company documents included annual reports, and policy documents. External documents were published news and announcements, as well as other data and information from the Ministry of Planning and Investment, the Ho Chi Minh City Department of Planning and Investment, government bureaus, and other relevant websites. Personal visits were conducted at each of the seven IJVs' main office

(as well as select divisions) for interviews and non-participatory observation.

Data triangulation, which uses a variety of data sources, was spread out during a fourteen-month period (November 2006 to December 2007) and involved 75 in-depth face-to-face interviews. Fifteen months after the last interview, 18 respondents from each of the seven IJVs used in this study were re-contacted in March and April 2009 to obtain additional information following the passage of additional time as a means of varying or confirming our findings. Information was crosschecked from multiple sources within each participating IJV. The information was collected from multiple sources which included individual and group discussions and by interviewing both expatriate and Vietnamese staff (98 interviewees from all departments, divisions, levels [top, middle, and operational], and local and foreign partners).

The information which was obtained from the data collection process was used to compose the narration for each case study. After each case study was completed, it was reviewed to identify patterns and compare/contrast the results among all case studies [10, 11].

Results

“Do relationship control mechanisms play a key role in the success of IJVs in Vietnam? If yes, how?” To answer that statement, the collected data as intended, provided a generalized view as to what control mechanisms were influential in the successful operation of an IJV in Vietnam. Although other control mechanisms noted the data was intentionally sifted at this point to focus upon the role of relationship control.

The respondents in this study provided additional insights into the operation of Vietnam-based IJV's, beyond what was anticipated. During the interview process the concept of relationship-control was verified as a means for determining the success of a Vietnam-based IJV. But government policies and regulations were also frequently mentioned as factors which directly related to the frequency and quality of interactions between other external partners (customers, suppliers, and media). Relationship control was determined to be influential to the successful operation of an IJV through internal and external relationships.

The perceived and assessed level of the Relationship-Control Mechanism as culled from the data within each case study can be viewed in the following Table 1.

Table 1. Respondent Perspective on the Relationship-Control Mechanism

	Evergreen			Riverside			PMPC			TMI			TTC			PMH			Nippon Express			In general				
	L w	M d	H h	L	M	H	L	M	H	L	M	H	L	M	H	L	M	H	L	M	H	L	M	H		
Relationship-control mechanism		√	X		√	X			√	X			√	X			√	X			√	X			3√	4√ 7X

Notes: √ : The current level of the Relationship-Control in case studies assessed by respondents.

X : The importance of the Relationship-Control on IJV success as perceived by respondents.

The collective interviews with senior and middle level managers in an IJV indicated that a key issue among the local partners was disillusionment caused by successful investment tactics used by the stronger foreign partners. The relationship which at such an early stage of the partnership should be building in reality became strained. The local partner could potentially lose a considerable amount of money before an IJV is viewed to be successful. At one case, the position of the local partner was perceived to be weak due to conflicts with the senior management of the foreign partner. This meant that IJV success could only be attained based upon the foreign partner's strengths in areas other than relationship control. Determining how long an IJV can continue to work under a stressed relationship may be worthy of follow-up research but a strained internal relationship between both partners is NOT a key to success. IJV partners must be mutually willing to progress through each stage of the organization's development plan. Foreign partners are often afraid of changing senior management because it could lead to a change in the mission of the business or at the very least provide for an organizational distraction. When senior managers change positions and responsibilities in an IJV there appears to be two main consequences. First, staff who remain in the organization might become despondent, disappointed, anxious or

psychologically disconnected. Second, the new manager could be at an organizational crossroads—continuing the existing way that might not be good but is comforting to staff or by starting out on a new path which might be strongly opposed by existing staff.

The relationship-control mechanism was evidenced within each case study and was described as a process in which organizational staff tried to reach IJV goals through the use of existing relationships. Relationships in some contexts existed with a variety of service-based individuals such as government representatives, suppliers, lawyers, and consultants. In some business sectors relationship-control worked as a localized form of *guānxi* with the aim being to use IJV strengths to exploit opportunities and overcome threats. Although this term was popularly used as previously noted in China, especially in IJVs, it rarely has been confirmed as an entity within a Vietnam-based IJV. The reason is that many people believe that the relationship-control mechanism has the same negative meaning and unwanted associations as does “mafia”.

In each of the cases it was discovered that there were a select number of senior managers associated with the local partner, who were related to senior government leaders. It became evident in the interviews that these managers would be willing and able to take advantage of their relationship with the local

power structure for the IJV as well as for themselves.

Relationship building has become an integral action initiated among IJVs and local governmental entities as a means to deal with the complex administrative formalities in Vietnam. Navigating through the bureaucratic maze associated with starting a new business partnership in Vietnam is viewed as being a time-consuming (if not futile) exercise. According to the *HCMC Youth Newspaper* (June 02, 2009), administrative bureaucratic formalities were a big challenge to enterprises in Vietnam. To open a business, a typical proposed partnership in Vietnam would be required to initiate and complete 16 bureaucratic processes. These time-consuming tasks cause new enterprises nearly 4 months of continuous effort (with no immediate guarantee of success) and a steep financial cost. Having relationship/connections within the local or state bureaucracy has proven to be a labor-saving blessing for any IJV in that position.

Even though relationship control with influential governmental leaders is a powerful and effective consideration it is not the only advantage for maximizing this control mechanism. A typical example of the relationship-control mechanism at work within a Vietnam-based IJV occurred within the customer services operation at one case. In 2006, this IJV welcomed customers from 24 countries, although the majority originated

from Asian countries. It placed considerable effort in developing an advanced level of customer services in order to satisfy their client's needs. Staff were taught to be exceptionally responsive to all the customers regardless their culture, age group or gender. The important relationship between staff and guest was well recognized by the management at this IJV and was viewed to be a key component to its continued success.

successful IJV in Vietnam. This study investigates IJVs in Vietnam—an emerging market—where both opportunities and threats exist for foreign and local investors. With its undeniable strengths and opportunities, an IJV still plays an important role in Vietnam despite the phenomena of IJV failure that seems to be a global issue rather than just a local one. Some senior managers interviewed in the study stressed the importance of selecting the

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Conclusion

A beneficial discovery which originated from this study is the acknowledgement that relationship is an effective control mechanism which is predictive of IJV success in Vietnam. Previous to this study there were only tertiary studies involving IJVs within other developing countries. The results of those studies listed relationship as one of many potentially effective control mechanisms. This study, albeit limited in scope, has placed relationship as a primary tool for establishing an organizational foundation leading toward a

right control mechanisms in developing an IJV. Investors, both foreign and local partners, obviously seek to exploit the opportunities of doing business in Vietnam and see the IJV as an optimal business vehicle—provided that there is more predictability in the launching of a successful enterprise ●

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Quan điểm của các nhà quản lý... (Tiếp theo trang 20)

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Những giải pháp nhằm định hình... (Tiếp theo trang 67)

Muốn định hình một phong cách tư duy mới, giảng dạy và truyền bá hình thức tư duy đó đã khó, thực hành và phát triển nó trong cộng đồng còn khó hơn, điều này đòi hỏi sự đồng bộ của cả xã hội, và tất nhiên cũng cần những người đi tiên phong. Đúng là một cánh én không làm nên mùa xuân nhưng nó sẽ báo hiệu mùa xuân đang đến.

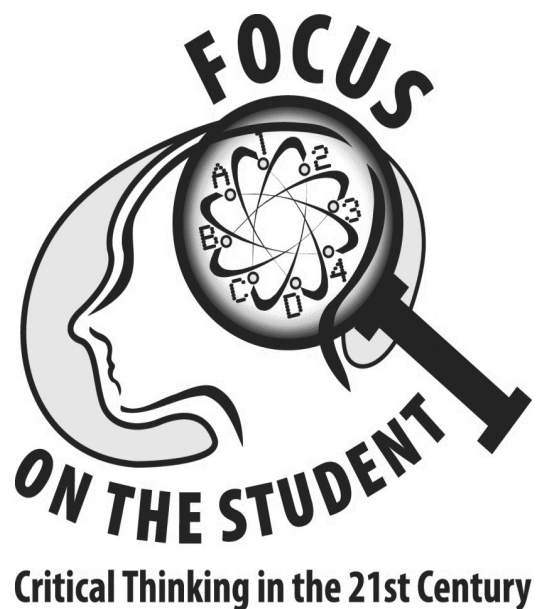
Quá trình tư duy của con người diễn ra vô cùng phức tạp, ẩn chứa nhiều rủi ro cho việc đánh giá, nhận định; cộng với việc thực tiễn cuộc sống luôn vận động và biến đổi nhanh chóng khiến cho bản thân chủ thể tư duy (con người) sẽ gặp nhiều khó khăn trong việc đưa ra quan điểm, đánh giá cho hành động dưới sức ép của thời gian và những mối quan hệ lợi ích khác. Tư duy phản biện như một cú đánh mạnh vào những bức tường thành kiên cố và bảo thủ của tư duy định kiến, phá

vỡ nó và đưa ra những kiến giải cho những khả năng nhận thức tối ưu có thể có. Nó không những trang bị những nhận thức được thấm nhuần trong tư duy, trở thành một phong cách hay thói quen tư duy phản biện, mà còn trang bị những phương pháp, kỹ năng giúp người học và ứng dụng nó có đủ những điều kiện cần thiết để đối diện với hiện thực cuộc sống muôn màu muôn vẻ, đặc sắc và không lặp lại ●

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