THE RELATIONSHIP BETWEEN BUSINESS STRATEGY VARIABLES AND JOINT VENTURE PERFORMANCE: LESSONS FROM CHINA

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This paper examines the influence of some major business strategy variables on the performance of international joint ventures (IJVs) operating in China. The empirical investigation was performed by operating GLM procedure under SAS software for the logarithmic-linear model. The findings suggest that product quality, sales force marketing, and preferential terms of payment are significantly related to IJVs' accounting return and domestic sales growth. In addition, industry structure and length of operation are found to significantly moderate the form of relationship between business strategy variables and IJV performance.

As the world's largest developing country and fastest-growing economy, China continues to attract high levels of foreign direct investments (FDI). Not surprisingly, international joint ventures (IJVs) constitute the preferred mode of entry into a market that, although extremely promising, can present daunting challenges to the unwary investor. Indeed, the Chinese economy is best described as a centrally

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planned economy (CPE) in transition where business rules - both written and unwritten, are likely to differ markedly from those of market economies. Success in China requires an understanding of its unique investment environment and the adoption of a realistic strategy. This study empirically investigates the influence of a number of business strategy variables on the performance of IJVs in the Chinese investment settings.

THEORETICAL BACKGROUND

In recent years, multinational corporations have increasingly used IJV as a vehicle for FDI (Harrigan, 1988). As an alternative to either full integration or simple market exchange, the IJV facilitates inter-firm learning and transfer of intangible assets (Kogut, 1988) while mitigating incentives for opportunism by creating interdependence between the transacting parties (Buckley and Casson, 1988). Moreover, as long as the benefits derived from joint efforts minus the transaction costs specific to the formation and operation of the IJV exceed those benefits derived from exploiting firm-specific advantages separately, an IJV creates "synergies" and enhances economic rents to the partners (Beamish and Banks, 1987). These synergies can be the result of risk reduction, economies of scale and scope, production rationalization, convergence of technologies and better local acceptance (Harrigan, 1988). As a corollary, the synergistic effects are larger the greater the complementarity between foreign and indigenous firms. Hence, in a host country with unfamiliar cultural, political and economic systems, an investing company is more likely to cooperate with an indigenous firm, which has unique country-, industry- or firm-specific skills and advantages that are very costly, if not impossible, to duplicate (Davidson and McFetridge, 1985). In addition, in less developed and socialist countries in which requirements for adaptation and information are greater due to market imperfections (Dunning and Rugman, 1985), cultural changes (Beamish and Lane, 1990), idiosyncratic investment laws, uncertainty of cash flows (Choi, 1989), different economic stages (Gold, 1991) and currency premiums, the necessity for a multinational enterprise

to enter a new market through an IJV is further reinforced (Beamish and Banks, 1987). Therefore, under the right conditions, the IJV can be a "first best" choice (Shan, 1991).

"As a hybrid form of organization, the IJV is not fully regulated by either the market or the hierarchical modes of organization."

Nevertheless, despite their increasing importance, IJVs have often been hobbled by unsatisfactory performance (Killing, 1983). IJV performance depends greatly upon qualitative variables such as individual personalities, organizational cultures, administrative styles, and management philosophies. As a hybrid form of organization, the IJV is not fully regulated by either the market or the hierarchical modes of organization. The presence of two or more parents generates inherent managerial difficulties that are often reflected in poor results (Killing, 1983). Effective control is elusive for parent firms, because mere ownership position cannot ensure their influence on the IJV's behavior: management at parent companies must often rely on subtle and complex mechanisms of control as well as appropriate and realistic business strategies.

THE CHINESE ENVIRONMENT

The promulgation of a joint venture law in 1979 signaled the official opening of China to foreign investment. Since then and as of the end of 1993, the Chinese authorities had approved the establishment of over 167,500 foreign invested enterprises (FIEs) involving $241.5 billion in

foreign capital. Over 80,000 of those, representing $67.2 billion in investment, have started operation. These enterprises, which include equity joint ventures (64.36%), wholly foreign owned firms (20.42%), and contractual joint ventures (15.22%) (*People's Daily*, 1994a), have played a major role in the opening of the Chinese economy. In terms of the volume of foreign capital absorption, China is currently the second leading country in the world, surpassed only by the United States. The industrial output and import/export volume of FIEs have grown to represent 11% and 34.40% of the nation's total, respectively. About ten million Chinese nationals are currently employed in FIEs (*People's Daily*, 1994b).

IJVs operating in China face less government intervention at the business strategy level, as opposed to the corporate (industry) strategy level. Nevertheless, there still exist certain restrictions, on product quality, pricing and advertising in particular. More importantly, management must take into consideration the country-specific environmental factors when formulating and implementing firm-level business strategies. This means a sensitivity to local Chinese business conditions, such as the importance attached to personal relations with customers, or the practice of extending credit terms of payment in marketing. These factors, along with other uniquely Chinese conditions, will be considered later. But first some more universal determinants of IJV performance will be discussed.

BUSINESS STRATEGY VARIABLES

In recent strategic management and international business literature, an increasing attention has been paid to examining the underlying determinants of corporate success and to identifying appropriate competition strategies for maximum long run profitability. In its bid to succeed in a host market, a foreign investor has to be concerned with the application of home-tested business strategy variables in a new environment.

Dawar and Parker (1994) and Phillips and Chang (1983) have empirically shown that product quality has a significant positive impact on a firm's economic performance. Indeed, product quality is widely recognized as an important business strategy variable which is made up of not only physical attributes but also brand name, product image, innovation, and service. It constitutes a major component of product differentiation which creates a competitive advantage for firms. Producers in China are specifically prohibited from manufacturing products that are deemed by the state to be obsolete. Producers that fail to comply with this provision may be ordered to cease production, and risk seeing their business license revoked and their sales proceeds confiscated. At a minimum, all products must meet the standard product quality requirements, which are determined by either the State Council quality supervision and control departments or industry customs and practices. Chinese consumers, on the other hand, value quality above most other product attributes. In sum, both supply and demand forces contribute to an environment where product quality is likely to increase the efficiency and effectiveness of the venture. Following the above line of reasoning, our first hypothesis states:

H1: Product quality is significantly and positively related to accounting return and market growth for IJVs operating in China.

According to microeconomic theory, a firm's pricing level is generally negatively associated with its sales, and influenced by both demand and supply elasticities. This negative relationship seems to be fundamentally maintained in China since Chinese consumers are very sensitive to the product price. The magnitude of the relationship between pricing and accounting return is an empirical question and depends on the contextual settings. In the management literature, Farris (1979), Gallego and VanRyzin (1994) summarized their findings by arguing that pricing is positively linked with the firm's profit and mediated by policy and market factors. The pricing of IJV products in China is regulated by the provisions of the joint venture law. According to its guidelines, ventures can freely

set the price of their exports, except those controlled by Chinese foreign trade corporations. As for products sold on the domestic market, their prices depend upon their classification into one of the three categories determined by law. These include fixed pricing, managed pricing and free pricing. In practice, IJVs do not produce the type of goods that are rigorously controlled by the Chinese government (fixed pricing). Indeed, it is highly unlikely that the authorities will be forthcoming in granting the necessary approvals for such an IJV project, i.e. a project for which both the production and distribution are controlled by the government. In addition, a major market/product factor affecting an IJV's pricing policy is the phase of the product life cycle (a proxy of the IJV's operation length). Most IJVs in China manufacture innovated products which are new to Chinese consumers and in an introduction phase when produced. When the products are developed in the market, the pricing policy should accordingly respond to the market conditions and the firm's marketing strategies.

In view of the above, it is proposed that:

H2: Pricing is significantly and negatively related to sales growth for IJVs operating in China; this relationship may be moderated by the IJV's length of operation.

Strickland and Weiss (1976) and Chauvin and Hirschey (1993) offered evidence that advertising creates and maintains product differentiation and hence positively relates to a firm's profitability. In China, advertising for domestic and foreign products was reintroduced in 1979, lifting a ban instituted during the Cultural Revolution. Advertising volume is now growing at about 30 percent annually. A variety of media has been used by foreign ventures to advertise their products and services. China has over 100 television stations, 122 local and national radio stations, over 500 newspapers, and 4,000 magazines. IJVs or their advertising agencies have four possible channels for advertising in China: 1) direct to the media; 2) through an off-shore media representative; 3) through a TV or radio

program supplier, and 4) through a Chinese advertising corporation. As their choices expand as a result of economic liberalization, Chinese consumers are likely to prefer foreign products to domestic goods. It is therefore predicted that an IJVs' advertising is positively linked with their accounting return and sales. In addition, given the differential growth rate across industries, industry characteristics may impact this relationship. As a result, fast-growing industries are likely to have a higher intensity of advertising. Noting the above considerations, we offer the following hypothesis:

H3: Advertising expenditure is significantly and positively related to accounting return and market growth for IJVs operating in China; this relationship may be moderated by the industry sales growth.

Kobrin (1988) and Hennart (1991) have found that the equity distribution and subsequent performance of IJVs are influenced by the expected strategic importance of the foreign firm's R&D intensity. Industrial organization economists maintain that R&D intensity is a major contributor of product differentiation and firm competence and thereby is positively related to firm performance. A number of laws and policies have been enacted and implemented by the Chinese government in order to attract more technologically-advanced investments likely to benefit the national economy. In particular, technologically-advanced products benefit from: 1) a reduced corporate income tax (e.g., the rate for these projects is 10-24% while the rate for non-technologically-advanced and domestic-oriented products is 33%; 2) reduced land-use fees; and 3) exemption from the profit remittance tax. As a result, technologically-advanced projects are likely to outperform others in terms of accounting return. On the other hand, it is recognized in the literature that the return reimbursements for R&D expenditures usually take longer time than for other business strategy variables (Harrigan, 1988). Besides, earlier studies have found that R&D intensity varies across industries given the context of market economies (Craig and Douglas, 1982).

Based on the above, it is proposed:

H4: R&D intensity is significantly and positively related to accounting return and market growth for IJVs operating in China; this relationship may be moderated by an IJV's operation length and the industry structure.

Caves and Mehra (1986) and Kogut and Singh (1986) have demonstrated that the size of the FDI influences the entry mode and subsequent market performance of the venture. Hall and Weiss (1967) also found that greater investment size leads to higher profitability. According to current Chinese policy, there is no ceiling or minimum investment level (in practice, however, a foreign investor should at least invest a 5% share in an IJV). In sum, size is expected to be positively related to firm performance, since greater size implies an ability to benefit from economies of scale and scope and invest in advanced equipment and technology. Moreover, it is likely that a foreign investing firm would contribute more capital to the venture when the industry is growing rapidly. Therefore, the following hypothesis states:

H5: Investment size is significantly and positively related to accounting return and market growth for IJVs operating in China; this relationship may be moderated by the industry structure.

According to a recent report of the Chinese State Statistical Bureau, the average age of domestic accounts receivables is growing. Two major reasons can be advanced to explain this situation: First, in China, preferential terms of payment, especially extension of payment deadlines, are widely used as a primary marketing tool. This credit-granting practice may be to some extent a reflection of culture. In a country where personal relations are painstakingly nurtured and the maintenance of harmony is of paramount importance, sellers would do their utmost to avoid embarrassing customers temporarily unable to pay. Second, a sustained tight monetary policy, reflected in an increase in interest rates and a reduction in bank

lending (a situation of 'credit crunch'), has resulted in liquidity problems for many businesses.

In sum, the practice of permitting customers to delay payment for a longer period is a crucial selling tool for Chinese firms. Based on the preceding observations, it is hypothesized that:

H6a: The growth rate of domestic accounts receivables for an IJV in China is positively related to its sales growth rate.

However, delayed payments result in greater credit costs (interest expense and bad debt allowance) as well as financial risk (transaction and economic exposures) for the seller. Thus:

H6b: The growth rate of domestic accounts receivable for an IJV in China is negatively related to its profitability on an accrued accounting basis.

Chinese nationals tend to rely heavily on personal relationships (*guanxi*) in business dealings (Mahatoo, 1990). *Guanxi* pervades the business world in Chinese societies. No company in the Chinese business world can go far unless it has extensive *guanxi*. As a result, in economic sectors where market-oriented firms have become dominant, sales force marketing, an activity relying on *guanxi*, has become an increasingly popular and effective marketing means. The marginal contribution of sales force expenditure to profit is usually high. Thus:

H7: Sales force expenditure is positively related to both accounting return and domestic sales growth.

CONTROL VARIABLES

Operation Length. IJV agreements in China usually stipulate a specific period of operation. Typically, the foreign partner agrees to turn over the venture to the Chinese party, at a pre-specified time, with or without compensation. Other things being equal, IJVs of shorter duration are more risky, because there is a higher probability that the venture will end before sufficient return can be generated or before the full potential of the IJV can be realized. Even when the venture is renewable, the shorter duration specified in the contract may mean more frequent renegotiation, which in itself is a source of uncertainty for the foreign partner. Further, it appears that foreign investors need more time in China to adjust to the new environmental conditions and become familiar with local business practices. In short, those ventures with a longer presence in the country are likely to acquire valuable experience over time and possess a greater capability to reduce the level of uncertainty. Therefore, a positive relationship is proposed between the length of IJV operation and its performance. Moreover, as stated earlier, the length of operation is likely to moderate the relationship between pricing, R&D intensity and IJV performance.

Industry Growth. Caves and Mehra (1986) have shown that the relationship between firms' business strategies and their performance is moderated by the characteristics of the industry (e.g., industry sales growth). In China where the industry and market structures are still far from perfection, certain sectors are undergoing transition while others are lagging behind. For instance, the dual-pricing system still remains in effective in some industries. When government instituted supply side controls are lifted in an industry, a rapid initial development will ensue, reflected in a surge in industry sales growth. Thus, a positive association is expected between firm performance and industry sales growth. Moreover, as discussed earlier, the industry growth is predicted to bear upon the relationships among a number of business strategy variables

including advertising, R&D intensity and investment size and IJV performance.

"[C]hinese consumers tend to value low cost over other product attributes, despite a tremendous growth in real purchasing power."

In light of the weaknesses of single measures of performance (Seth 1990), this study will measure IJV performance along two dimensions: accounting return (Return On Asset and Return On Investment) and market growth (domestic sales growth and export growth). A detailed explanation of the measures of independent and dependent variables is provided in the appendix.

RESEARCH METHODOLOGY

Data and Sampling

The scarcity of reliable data has long constituted a major obstacle for analyses of the Chinese business environment. It is only in recent years that some official records on FDI activities in China have been made available. Cross-sectional data for 127 randomly selected IJVs, in operation during the 1989 - 1991 period in Jiangsu Province, were obtained from the Provincial Commission of Foreign Economic Relations and Trade, where one of the authors worked as a division head at the time. Nevertheless, the data on seven out of 127 IJVs in this study were incomplete. To remedy this limitation, an empirical measure has been taken, i.e., missing values

are tested by using a pairwise deletion method (computing the cov/corr matrix using pairwise information).

Jiangsu now ranks second in China in terms of GDP and the level of foreign investment absorption, as reflected in the number of IJVs and the total committed volume of foreign capital. The policies, rules and measures adopted in the province vis-a-vis FDI have been widely applied elsewhere in the country. The data are based on a survey of external financial statements (including related notes) that IJVs were required to submit to the above Commission.

Statistical Approach

Since some explanatory (independent) variables in this study may be Poisson variates, that is, the probability distributions of some observations is likely to be the Poisson distribution, we use the logarithmic-linear model (see the appendix) instead of the identity-linear link. This study also employs the General Linear Models Procedure (GLM) to run a multivariate regression under SAS, since GLM is well suited for solving a set of independent, simultaneous and interactive equations when there are more unknowns than equations. Specifically, the Forward Selection (selection level=0.10) regression method (a forward regression based on the sequence of significance effect of independent variables to individually entered dependent variable within the pre-specified selection level) is used to identify the relationship between individual dependent variables and forward selected independent variables in sequence of significance level. Based on the result of the forward selection process, those insignificant independent variables ($p > 10\%$) are deleted from the regression list. Moreover, given the need to examine the aggregate multivariate effect from the whole model and the interrelationships between business and control variables, the GLM procedure also incorporates a MANOVA test.

RESULTS AND DISCUSSION

Business Strategy Variables

Product Quality and Pricing: Product quality (QUAL) significantly and positively affects all four performance measures, whereas price is inversely associated with domestic sales growth (see Table I). The latter relationship supports the view that Chinese consumers tend to value low cost over other product attributes, despite a tremendous growth in real purchasing power (Mahatoo, 1990). In addition, there is a significant interaction between pricing strategy and length of operation (see Table II), suggesting a relationship linking pricing and the product life cycle in China. Therefore, H1 and H2 are both supported. Further, the present study also found that the IJV pricing policy may vary across industries.

Advertising: Advertising (ADVT) is not found to have a significant influence on firm performance except for a moderate positive effect on sales growth. Therefore, H3 is not supported. Advertising by private enterprises is only a decade old in China and consumers may have ambivalent attitudes toward its messages. In addition, advertising costs are higher for IJVs relative to domestic firms, since the former must pay in foreign currency and at a higher rate. However, ADVT may be effective for marketing products that have had a long presence in the Chinese market, since ADVT interacts significantly with length of operation (see Table II).

R&D Intensity: R&D intensity demonstrates a marginally significant influence on IJV performance. While positively associated with market measures, it is negatively related to accounting performance. Thus, H4 is not fully supported. The relatively short history of the IJVs (most were set up after 1984) may explain this result. Indeed it is argued that the full effect of R&D expenditures on performance is likely to transpire after a longer time lag. In addition, as shown in Table II, the interactions of R&D intensity with operation length and industry structure are moderately

significant. Thus, R&D intensity seems to vary across industries and change over time.

Size: Size is significantly and positively related to market performance, and moderately associated with return on asset. In addition, size is moderately interacted with industry sales growth. Therefore, H5 is supported. Indeed, greater size implies an ability to benefit from economies of scale and scope and invest in advanced equipment and technology (Gold, 1991). These are among the competencies needed for foreign investors in order to outperform the Chinese local firms (Shan, 1991).

To sum up, the present results seem to indicate an overall similarity between market economies and CPEs in transition as far as the impact of major and commonly analyzed business strategy variables on firm performance is concerned. However, some of these variables do not have identical influences in the two types of business environment. In addition, a given variable can have differentiated effects on various aspects of performance, according to the environment. These differences can be traced to several factors: economic structure and development stage, idiosyncratic cultural and political characteristics.

Sales Force Marketing and Credit-Granting: Sales force expenditure (SFMK) and domestic accounts receivable growth (DARL) have a statistically significant and positive impact on accounting profitability (ROI and ROA) and domestic sales growth (SGR). Thus, H6a and H7 are supported, while H6b is rejected. This rejection could be attributed to a better customer/buyer network and/or ability to offset the negative impact on profit growth by maintaining higher gross margins.

Control Variables

Industry Growth: Industry sales growth has a moderate positive influence on ROI, ROA and SGR, but a negative impact on export growth (EGR). As a reflection of the imperfection of industry structure in China,

Table I

Business Strategy and Control Variables Affecting IJV Performance Forward Selection Statistics(N=127, SLE=0.10)

Independent Var. Enter	Parameter Estimate								*p*-value				Incremental R^2			
	Intercept				Coefficient											
	ROI	ROA	SGR	EGR	ROI	ROA	SGR	EGR	ROI	ROA	SGR	EGR	ROI	ROA	SGR	EGR
	-5.87	-8.33	-14.7	-4.11												
QUAL					5.43	6.27	1.12	0.75	0.006***	0.009***	0.008***	0.041**	0.12	0.11	0.15	0.07
PRIC							-1.15				0.075*				0.07	
SFMK					0.30	0.16	0.06		0.024**	0.021**	0.001***		0.09	0.10	0.12	
DARL					0.77	0.48	0.12		0.052*	0.044**	0.021**		0.09	0.11	0.08	
SIZE						0.01	0.01	0.01		0.079*	0.050*	0.029**		0.07	0.10	0.09
R&DI					-2.32	-0.94	1.54	2.44	0.086*	0.081*	0.088*	0.081*	0.06	0.07	0.05	0.06
ADVT							0.01				0.086*				0.05	
INSG					1.01	1.24	0.95	-2.77	0.058*	0.079*	0.046**	0.004***	0.08	0.07	0.07	0.26
LEOP					0.83	0.60	0.53	0.38	0.001***	0.001***	0.002***	0.053*	0.23	0.21	0.14	0.09

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

TABLE II

General Linear Models Statistics For Business Strategy and Control variables (N=127)#

Whole Model/Indep Variable & Interactions	Mean Square				F-value				Pr > F			
	ROI	ROA	SGR	EGR	ROI	ROA	SGR	EGR	ROI	ROA	SGR	EGR
Model	244.49	129.35	1169.6	26.21	8.91	5.83	33.21	2.10	0.004	0.019	<0.001	0.139
Error	27.44	22.19	35.22	12.48								
QUAL	1316.84	357.92	2203.4	65.02	47.99	16.13	62.56	5.21	<0.001	0.001	<0.001	0.048
SFMK	249.70	199.04	921.00	20.59	9.10	8.97	26.15	1.65	0.002	0.003	0.001	0.193
DARL	169.58	173.53	213.08	18.59	6.18	7.82	6.05	1.49	0.013	0.008	0.016	0.231
SIZE	68.05	113.39	129.06	76.38	2.48	5.11	3.69	6.12	0.121	0.028	0.060	0.012
R&DI	104.82	69.01	89.81	43.55	3.82	3.11	2.55	3.49	0.051	0.084	0.094	0.066
PRIC	69.15	53.03	106.72	23.09	2.52	2.39	3.03	1.85	0.108	0.128	0.087	0.183
ADVT	29.91	30.18	165.89	16.22	1.09	1.36	4.71	1.30	0.267	0.252	0.036	0.265
INDY	94.67	73.01	156.38	64.77	3.45	3.29	4.44	5.19	0.069	0.076	0.039	0.020
LEOP	551.82	567.40	293.73	50.79	20.11	25.57	8.34	4.07	<0.001	<0.001	0.004	0.040
INDY*R&DI	57.62	64.57	110.94	21.72	2.10	2.91	3.15	1.74	0.140	0.090	0.081	0.190
INDY*PRIC	79.58	55.25	298.31	6.12	2.90	2.49	8.47	0.49	0.091	0.117	0.005	0.523
INDY*ADVT	41.16	43.71	98.97	7.74	1.50	1.97	2.81	0.62	.0220	0.164	0.095	0.484
INDY*SIZE	77.95	56.14	111.29	59.15	2.84	2.53	3.16	4.74	0.092	0.103	0.081	0.036
LEOP*R&DI	71.07	54.59	109.88	35.82	2.59	2.46	3.12	2.87	0.100	0.112	0.080	0.093
LEOP*PRIC	67.23	58.58	124.68	13.85	2.45	2.64	3.54	1.11	0.121	0.097	0.067	0.323
LEOP*ADVT	85.61	41.27	220.83	10.98	3.12	1.86	6.27	0.88	0.080	0.180	0.023	0.391

Only interactions which have a significant relationship with at least one dependent variable are listed.

a particular industry may experience a sudden burst of sales growth. When this happens, IJVs may tend to exploit rapid local expansion rather than turn to exporting. The industry-specific variable also interacts significantly with some, but not all, critical factors for the success of business strategies. Indeed, the indirect effect of industry on performance is reflected in its moderating effect on the relationships between venture's performance and major business strategy variables such as R&D intensity, advertising, pricing and investment size.

Length of Operation: Length of operation (LEOP) is found to be positively and significantly related to all four performance measures; although its influence on accounting profitability is greater than on market performance measures. In addition, length of operation has a moderating effect on the form of relationships among IJV performance and such variables as R&D intensity, advertising, and pricing.

Table II indicates that the aggregate multivariate effect (including control variables) on SGR, ROI and ROA is statistically significant, but not apparent on export growth.

CONCLUSION AND IMPLICATIONS

The remarkable success of the market reforms in China over the last fifteen years has exceeded the most optimistic expectations and conferred an aura of legitimacy to the pragmatic and gradualist approach espoused by the Chinese authorities. The policies that were guiding this important country on the arduous path to reform, were still called, just a few years ago, the "Chinese experiment". Today, however, observers around the world refer increasingly to the "Chinese model" and its potential lessons for other countries that have initiated market reforms. It is incumbent upon researchers to study these lessons, as well as other practical implications, through an analysis of the various aspects of the rapidly changing Chinese market. To the extent that this paper succeeded in identifying some of the

determinants of high performance for one of the players in this market, it did advance this research agenda. Moreover, this study's conclusions, albeit tentative, have important managerial implications for foreign executives presently active in China, as well as future investors.

"A linkage was established between high market performance and both intensity of sales force marketing and provision of lenient terms of payment for customers of IJVs in China."

To recapitulate and summarize the paper's major findings, it will be recalled that a linkage was established between high market performance and both intensity of sales force marketing and provision of lenient terms of payment for customers of IJVs in China, although the extent to which the seller can go in providing credit facilities without incurring unsustainable costs is very firm- and situation-specific. Flexibility and solicitude toward consumer needs appear to be of utmost importance, while advertising did not affect performance to a great extent.

The same conclusions could possibly be reached in other countries, especially those that have some commonalities with China, in particular along the cultural and economic development dimensions. Comparative studies could help answer a few questions in this area.

The present study also demonstrated that the extension of credit to buyers is not systematically linked to lower profitability. Product quality highly correlated with performance, while high pricing policies negatively affected local market growth. The Chinese consumers appear to be value-conscious and price-sensitive. The quality/price relationship to firm success

may be moderated by other factors, in particular cultural and/or macroeconomic variables. These issues need further investigation. Moreover, additional research could reveal possible similarities with other developing countries or emerging market economies (e.g., Eastern Europe).

Greater size and length of operation enable a firm to better manage risk. In an environment where uncertainties are numerous, it can be expected that these variables correlate with performance, and the present analysis does, indeed, confirm this relationship.

The effects of R&D intensity on performance could not be as easily established. However, it does appear that R&D intensity has a stronger effect on performance for firms with a longer history of operation.

The large size of the Chinese domestic market has lured foreign investors. IJVs operating in that country benefited from industry sales growth, participating in the local expansion at the expense of exports. On the other hand, when domestic industry conditions were unfavorable, IJV's strategic aim necessitated cost-minimization and was reflected in a high percentage of exports.

In sum, the determinants of success in China are complex; the effects of most variables are amplified when interacting with contextual variables and impact differentially the various dimensions of performance. Accordingly, prospective investors must consider the correspondence between their firm-specific objectives and the presence and relative importance of the variables that are likely to produce the desired outcomes.

The uncertainties inherent in transitional states are a source of peril as well as opportunity, and those investors best prepared to circumvent the former and exploit the latter, are apt to survive and prosper.

In the near future, investors are likely to face additional uncertainties. Indeed, important political changes loom at the horizon, as China prepares

to regain sovereignty over Hong Kong (its largest source of FDI inflow), and replace an aging leadership. The impact of changes in China will undoubtedly ripple throughout the world. However, the dynamics of economic growth and the achievements of the last fifteen years will certainly weigh heavily on future policy orientations. As a result, the integration of China into the world economy will most probably proceed unabated, drawing on the resources of China and its people, as well as those contributed by the world beyond.

Appendix: The Model and Measurement

Model: $\ln(Y_I) = B_O + \sum b_i X_i + \sum b_j (X_1 + ... + X_7)*(X_8 + X_9) + E$

where: I = 1A, 1B, 2A, 2B; i = 1,2,...9;

Dependent Variable:

Accounting Return

Y_{1A} = Return On Investment(ROI); Y_{1B}= Return On Asset (ROA)

Market Measure

Y_{2A} = Domestic Sales Growth rate(SGR); Y_{2B}=Export Growth rate(EGR)

Independent Variables:

1) Business Strategy Variables

X_1 = ADVT-advertizing expenditure

X_2 = SFMK-sales force expenditure

X_3 = DARL-growth rate of domestic accounts receivable

X_4 = R&DI-R&D expenditure relative to its total assets

X_5 = PRIC-pricing, measured by average selling price of product in business relative to industry's average price, weighted by sales percentage of specific goods in total if multiproducts[1]

X_6 = QUAL-product quality, measured by percent of products rated superior to competitors minus percent rated inferior[2]

X_7 = SIZE-investment size, measured by total investment

2) Control Variables

X_8 = LEOP-length of operation, measured by venture age(years)

X_9 = INDY-industry sales growth rate

1. The industry's average price and sales growth are based on the Detailed Report of Jiangsu's Industrial Products, the third section of Annual Statistics Report of Jiangsu Province, Jiangsu Statistics Bureau. The firm's average selling price is derived from Financial Statement #04.
2. In quantifying "quality", this research is relied on the Report of Top Ten Enterprises in Each Industry (Jiangsu), and Introduction of Superior and Famous-brand Products in Jiangsu Province, both from Jiangsu Statistics Bureau.

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