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Business in Asia and the Pacific - Working Paper Series

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Working Paper Number 4

“Stakeholder Prioritization in Sino-Foreign Joint Ventures”

by

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ABSTRACT

This paper reports the findings of a project in Hangzhou, China, undertaken to investigate the prioritization of different stakeholders in Sino-Foreign joint venture firms. It was found that existing stakeholder salience theories did not explain adequately the Chinese tendency to emphasize clustering or relationship networking above specific stakeholders. Explanations and recommendations for further research are offered.

INTRODUCTION

There has been considerable research investigating such central issues to international joint ventures (IJV) as the economics of participation, the choice of IJV partners, possible strategies, and the net benefits to participants [Gibbons, 1996, Luo, 1995 MIR; Luo, Rao & Wang, 1995; Martyn-Beck, 1991; Martinsons & Tseng, 1995 LP; Parkhe, 1993; Yan & Gray, 1994]. Many of these studies focus on IJV's in China. It is apparent that China's transitional economy has created a tremendous opportunity for international firms, and the IJV has become a popular mode of foreign direct investment (FDI) in China. Studies of Sino-foreign IJV's are therefore important for both developing managerial theories, and offering practical guidance to managers in China and elsewhere.

There is also a rich stream of literature on stakeholder management (e.g., [Freeman, 1984; Mitchell, Agle & Wood, 1997]). Specifically, Mitchell, Agle and Wood proposed a dynamic theory of stakeholder identification and salience assessment model using three important stakeholder attributes, namely, power, legitimacy and urgency as an important step towards a better understanding of stakeholder relationship management. Open systems theory [Von Bertalanffy, 1950] correctly positions the external environment as a key area firms must manage effectively. Stakeholder management has received increased recognition as an important managerial framework for managing both external and internal relations [Freeman, 1984; Lenn, 1996; Mitchell, Agle & Wood, 1997]. Compared to their domestic counterparts, international joint venture firms have a potentially far more complex set of stakeholders. However, the study of stakeholder management in IJV's has been quite limited. Despite the importance of Sino-foreign IJV studies and the large body of literature available, to our knowledge, no field study of Sino-foreign IJV's has focused on the prioritization of IJV stakeholders. Here we report our field research on stakeholder prioritization in Sino-foreign joint ventures. This study aims at contributing to the literature in both IJV management and stakeholder relationship management by filling this apparent gap.

We first review basic theoretical models incorporated in our study, and describe the economic transition in China in general. On this basis, we proceed to discuss

research-design related concerns and our actual field research setting. A structured report of our in-depth interviews and detailed case analyses follows. The article concludes with several theoretical propositions we formulated based on both theoretical models and field research, and a discussion of managerial implications and future research directions.

THEORETICAL FRAMEWORKS

An international joint venture (IJV) is a new business entity created by two or more parent companies of different nations. The literature generally agrees that IJV's do have their attractiveness but are also very difficult to manage. Parkhe [Parkhe, 1993] presents a comprehensive model of the key issues facing IJV firms. This model suggests reciprocity, trust, avoidance of opportunism, and forbearance as common attributes related to IJV success or failure. Reciprocity refers to the give-and-take, and mutual benefits received by IJV partners. Trust is based on the expectations of honesty and reliability. Ensuring that a partner will not do anything that is of more benefit to itself than other partners constitutes avoidance of opportunism. Finally forbearance relates to the willingness of partners to forgive and forget the mistakes of other partners.

Another stream of research important to our study is the stakeholder management literature [Freeman, 1984; Mitchell, Agle & Wood, 1997]. The definition of who or what constitutes a "stakeholder" is much in contention. In this study we have chosen to use the broad definition as follows, which includes those key players who have stakes at risk, and also those other important constituents or interest groups relevant to the IJV. Early conceptions of stakeholder identification seem to be so unnecessarily broad as to be relatively inefficient for top managers to employ (given their limited time, and attention). Mitchell, Agle and Wood (1997) developed a model of stakeholder identification and salience assessment that appears to have substantially improved the state of the art in stakeholder management. Since this model is critical to our study, a more elaborated summary of their model follows.

The theory formulation by Mitchell, Agle and Wood was motivated by two research objectives, one is a *normative theory of stakeholder identification*, and another is a *descriptive theory of stakeholder salience*. Based on agency theory [Jensen &

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Meckling, 1976], transaction cost theory [Williamson, 1975], and resource dependence theory [Pfeffer & Salancik, 1978], the authors proposed power as one critical stakeholder attribute. Power is defined as the “ability of those who possess power to bring about the outcomes they desire” [Salancik & Pfeffer, 1974]. The authors adopted Etzioni’s [Etzioni, 1964] three bases of power: coercive power, utilitarian power, and normative power as this conception is based on the resources used to exercise power. Extending from the population ecology model [Hannan & Freeman, 1989], ethics theory [Carroll, 1996], and institutional theory [DiMaggio & Powell, 1983], the authors identified legitimacy as the second stakeholder attribute. Legitimacy, according to the definition by Suchman, is “... a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system or norms, values, beliefs, and definitions” [Suchman, 1995, p. 574]. Implicitly embedded in a variety of organization theory models is the notion of urgency, the third stakeholder dimension the authors formulated. Urgency is “the degree to which stakeholder claims call for immediate attention” [Mitchell, Agle & Wood, 1997].

The authors propose that the presence or absence (alone or in combination) of the three attributes of power, legitimacy and urgency determine stakeholder salience.

The authors then propose that the presence or absence (alone or in combination) of the three attributes of power, legitimacy and urgency determine stakeholder salience. More specifically they formed a typology of eight different kinds of stakeholders using a Venn diagram. Depending on the permutations, a non-stakeholder is perceived by managers to possess none of the three attributes, a latent stakeholder is perceived by managers to possess only one of the three attributes, an expectant stakeholder is perceived by managers to possess two of the three attributes, and finally a definitive stakeholder is perceived by management to possess all three attributes. Stakeholder salience increases as the number of attributes perceived by managers increases. To illustrate, we reproduce the original Venn diagram in Figure 1.

As suggested earlier, the authors’ second objective is to develop a *descriptive model of stakeholder salience*. Therefore a central feature of their model is the role of managerial perception. Stakeholder attributes are believed to have been socially constructed. More specifically, for a stakeholder, if managers do not perceive the presence of stakeholder attributes, that group will become a

non-stakeholder in this model. This is a potential deficiency in the model itself, but this is beyond the scope of this particular study.

FIGURE 1

Stakeholder Typology: One, Two or Three Attributes Present

The IJV model developed by Parkhe [Parkhe, 1993] integrates well with the stakeholder management model. The partners in an IJV become a unique group of stakeholders, and the four characteristics identified may help us understand better these stakeholders' power, legitimacy and urgency matters.

To summarize, we introduced three models, a IJV model [Parkhe, 1993], the stakeholder management model [Mitchell, Agle & Wood, 1997], and the clan capitalism model of China's transition economy [Boisot & Child, 1996]. Based on these theoretical models, we formulate the following propositions for our field research.

- P1. *The greater the combination of the three stakeholder attributes, the more important a stakeholder is to an organization.*

It is an extension of the central proposition of the Mitchell, Agle and Wood model with an emphasis that stakeholder attributes vary along a continuum.

- P2. *The greater the increase in the combination of the three attributes, the greater the shift in priority towards that stakeholder group.*

Again as a natural extension from the original model, we formulated this dynamic proposition. Stakeholder salience will change when managers perceive changes, e.g., an increase in the salience of that stakeholder's attributes.

- P3. *A stakeholder may possess salience either directly or indirectly by means of its interdependent relations with other groups, and such groups should be given greater priority.*

Note that we have identified the importance of stakeholder group interdependence in prior discussion, and linked interdependence and stakeholder salience in the above proposition.

- P4. *Stakeholders high on providing trust, reciprocity, forbearance and avoidance of opportunism are likely to get higher positive prioritization.*

- P5. *Stakeholders high on undermining trust, reciprocity, forbearance, and avoidance of opportunism are likely to get higher negative prioritization.*

As stated earlier, IJV successes depend on the trust, reciprocity, forbearance, and avoidance of opportunism among the partners [Parkhe, 1993], and these partners are in a sense a unique group of stakeholders. Hence we proposed those two propositions.

IJV successes depend on the trust, reciprocity, forbearance, and avoidance of opportunism among the partners

RESEARCH METHODS AND SETTING

The transition status of the Chinese economy and the mix of central-planning legacy and economic reform present a unique challenge for researchers. China

this project is qualitative because the stakeholder theory remains theoretically under-developed and Western frames of reference may or may not be applicable to China.

has an intriguing and complex combination of third world and advanced developing nation characteristics. This project employs a field study of qualitative nature for two key reasons. First and foremost, the stakeholder theory remains in a preliminary stage of theoretical development [Freeman, 1984; Mitchell, Agle & Wood, 1997] and with little empirical work related to it. Secondly and perhaps equally importantly, China represents a setting in which theoretical frameworks based on Western academic frames of reference may or may not be applicable [Adler, Campbell & Laurent, 1989]. Given these considerations we determined from earlier stages of research formulation to pursue a qualitative study.

Due to these considerations the most suitable sampling method was judgmental sampling. The overriding objective was to gain access to a cross-section of knowledgeable individuals and to probe whenever and wherever possible. As depth interviews and site visits were the qualitative research tools used, this report analyzes Sino-foreign IJV's from the information and insights obtained,

FIGURE 2

Qualitative Study Sample

and makes no attempt to suggest any statistical representativeness.

In total the study involved interviews with a cross-section of key individuals directly related to IJV firms. See Figure 2 for an overview of the sample.

To highlight, the current study obtained its data from:

- Four detailed case studies of IJV's, some by in-depth interviews of general managers (equivalent to CEO's), and others by key informants from other knowledgeable sources. Since we assured interviewees anonymity we present below disguised names.
 - Sino-Australia Pharmaceuticals, we interviewed the general manager,
 - China-HK Service Center, a joint venture between Hong Kong based China Resources (25% investment) and various levels of Chinese governmental agencies (75%), we interviewed the general manager,
 - Sino-Italy Leather Shoe Co. The Chinese partner is a collective enterprise, we interviewed the chief of a local governmental agency,
 - Sino-Japan Home Appliances, we interviewed the chief of a local governmental agency and an industry observer in an academic institute,
- Six depth interviews with Chinese general managers of IJV's
- Four depth interviews with competitors and potential competitors of IJV's
- Other depth interview in each of the other categories identified in Figure 1.

No equivalent term is available in Chinese to represent adequately the construct of "stakeholder".

The current study was largely confined to the Hangzhou City region, which hosts a number of IJV firms. This decision was reached because it made the study more manageable in scope, and because of our collaboration with Zhejiang University of Technology, located in Hangzhou.

All interviewees were offered anonymity by name or association, as it was more important to get frank and honest responses on what is potentially a sensitive topic area.

MAIN RESULTS

Characteristic of an economy in transition from traditionally central-planning

It was difficult to clearly articulate the notion of legitimacy in Chinese as well.

mechanics of governance to a market based one, Chinese business managers and those who deal with businesses have begun to appreciate terms such as competition, and consumers. The concept of “stakeholder” itself, however, was unknown and unclear to almost all of our interviewees. No equivalent term is available in Chinese to represent adequately this construct. Even the use of “internal and external groups relevant to business” was not much more helpful. The common response of laughter and the conversations that followed, indicated that stakeholders have not been considered on a wide-spread level of importance in China. Certain groups, such as animal rights and environmentalist groups were either unknown or of no consequence to many we interviewed. Other groups, such as owners, managers and employees, were considered “obvious” and unworthy of extra thought as to prioritization. However, like their Western counterparts, some hypothetical scenarios and detailed elaboration readily resulted in some acknowledgment of the need for considered stakeholder prioritization. By and large, the interviewees seemed to see their responsibility as internal to the business, and defined stakeholders accordingly. Nevertheless, discussion on stakeholders generally and stakeholder prioritization was not readily voluntarily forthcoming. It was made clear to the researchers that a number of interviewees found this topic “not interesting” and “not important.”

It was also clear that the four attribute model of IJV's was useful in assessing the relationship between IJV's and their parent entities (considered a unique group of stakeholders). The stakeholder salience model appeared to be relevant and pertinent as well. Note that like the imprecise definition of legitimacy in the stakeholder salience model, it was difficult to clearly articulate the notion of legitimacy in Chinese as well. Hence in both cultural settings, the question remains about the relationship between power and legitimacy.

Interviewees in the current study clearly valued all four attributes of IJV's [Parkhe, 1993]. Trust was the most frequently mentioned, perhaps because it is the easiest to express. In addition, reciprocity is a well-known and highly prized. Forbearance was seen as a good attribute of any marriage. Finally the avoidance of opportunism was noted by several interviewees, some of whom were managers of IJV's themselves, and others were managers in competing firms who saw foreign partners as guilty of opportunism. The reverse is, of course, just as

likely but not so easy to see or articulate. Interestingly, while all four attributes were valued by our interviewees, there was no clear expression or even indication that stakeholder prioritization was adjusted accordingly. This might have been taking place but was not articulated as such.

From the salience model of stakeholder management, *power* was the only attribute consistently referred to throughout the study. This is probably because it is a reasonably universal concept and widely experienced, no less so in a society like China's. *Legitimacy* was much more problematical. "Moral legitimacy" seemed to be an alien concept throughout. Those with ownership legitimacy were readily accepted as "obvious" priority stakeholders. Urgency was also difficult to talk about in general terms without specific examples. Within the examples or comments given, some shifts of priority as a result of urgency were implied, but interviewees didn't elaborate to make their comments more useful in terms of this model. Generally while all three factors in the model were pertinent, *power* was clearly the most significant.

As regards the individual stakeholder groups, by far the most frequently mentioned and emphasized were:

- a) the various levels and arms of Government; and
- b) the "market atmosphere" which includes the structure and power arrangements in their markets, infrastructure, competition, protectionism, guanxi, distributors and retailer muscle, and end-use customers. While end-use customers were rated to be increasing in importance, they didn't take on any of the dominance and fervour among our interviewees as they do in the most developed countries (Shopping experience in China clearly confirm this observation on a more personal note).

Banks were probably the third most important stakeholder group, because of the need for substantial finances to grow or restructure IJV's. Effectively they could well be included in the "governmental" category, as the banking sector is almost entirely government owned and operated but as shall be discussed shortly, the different elements of stakeholdership within the Chinese governmental apparatus

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are worthy of separate and more detailed consideration. The key managers themselves were acknowledged as "obvious" stakeholders. However, employees and unions as stakeholder groups have declined in relative importance following the Government's policy of greater "marketization." They must still be "looked after" in accordance with the law and the social objectives of various governments. The excessive human resources in various state owned enterprises have become a major issue for both governments and state owned enterprises. For those state owned enterprises and collective enterprises that form joint ventures with international partners, branches of various levels of governments appear to assist in transferring employees. For example, Sino-Italian Leather Shoe Co. was assisted by the Zhejiang People's Government branches to transfer a large number of employees to other collective enterprises in order to facilitate the IJV success.

With the State being the legal owners of so many businesses both fully or in partnership with local and IJV partners, it is hard to also separate shareholder stakeholders from governmental stakeholders in many cases. One got the impression that in state-owned enterprises (SOE), the government received prioritization as a stakeholder because it was the regulators, resource and special exception provides, and auditor rather than because it had any "passion" for "maximizing shareholder wealth." Our study didn't encounter any IJV's with private Chinese partners, and we would refrain from speculating about such cases since ownership status has increasingly become blurred in China with companies trying to take advantage of special exceptions offered to different types of firms due to the economic reform [Peng, 1997].

Suppliers were not mentioned as stakeholders, presumably because they were either not a problem to firms we interviewed and other interviewees or not seen as stakeholders as such. Interestingly, the "overseas Chinese business community" were also not mentioned as stakeholders, possibly because they were seen as "out there" or "obvious" rather than internal. An examination of the shareholdings of IJV's in a list supplied to us of Zhejiang Province revealed a substantial number of Chinese names within the foreign partner side. Overseas Chinese business people representing these and other IJV's would add to the list of potentially important stakeholders.

Pressure groups such as environmentalists, animal rights and feminist activists were of no perceived relevance to our IJV interviewees. The power of the media as an indirect stakeholder, so relevant in other countries, was also not of

TABLE 1
STAKEHOLDER EXAMPLES AND EVOLUTION

Stakeholder	Attribute(s) Present	Examples Under Central Planning	Examples Under Market Socialism
Dormant Stakeholder	Power	All levels of government	All levels of government Foreign governments Overseas Chinese businesses End-use consumers Local media
Discretionary Stakeholder	Legitimacy	Local communities General public	Local communities Union Consumer groups
Demanding Stakeholder	Urgency		
Dominant Stakeholder	Power & Legitimacy		Retailers and distributors Governmental arms that own it
Dangerous Stakeholder	Power & Urgency		Regional protectionist forces
Dependent Stakeholder	Legitimacy & Urgency	Key managers	Employees
Definitive Stakeholder	Power, Legitimacy & Urgency	Governmental agencies that own and control it	Governmental arms affecting business Board of directors Foreign partners
Non-stakeholder	None	Foreign governments Overseas Chinese business community Local and foreign media Consumer groups Environmental groups	Suppliers

consequence to the sample. Table 1 summarizes the results here and presents a comparison of the evolution of stakeholder salience.

DISCUSSIONS AND CONCLUSIONS

A variety of insights can be obtained from this study. First of all, we noted that the basic concept of stakeholder management was not widely accepted among Sino-foreign IJV managers and those who came to deal with IJV firms. This raises several interesting issues. First, IJV's have been a major avenue for Chinese

Chinese culture seems to favour holistic thinking rather than focusing on specific items alone and separately. The Chinese “will try to synthesize the constituent parts into a whole so that all parts blend into a harmonious relationship.”

firms to obtain managerial know-how from their international partners. It might be possible that while relatively harder managerial techniques such as Management of Information Systems (MIS) and Operations Research (OR) have been well received as our research discovered, the softer managerial know-how areas remain to be studied. Another possibility is that stakeholder management approaches primarily based on Western thinking may not be an attractive system for managing stakeholder relations in China. Clearly, Mitchell, Agle and Wood's (1997) work represents a significant step forward in the management of stakeholders. Their model however, seems to focus on each stakeholder group individually and separately. While the excellent examples they provide do link the possibility of dynamic stakeholder salience change, the possibility of stakeholders clustering together is not specifically proposed or elaborated upon. As stated earlier, the cultural and institutional characteristics of contemporary Chinese society seem to encourage a *guanxi* based economic governance structure as studies of national culture suggest [Hofstede, 1980]. Boisot and Child [1996] go as far as suggesting an entirely different governance structure – so-called “clan-capitalism.” In addition, the Chinese culture seems to favour holistic thinking rather than focusing on specific items alone and separately. According to Yang, the “Chinese people, especially adults, tend to display a cognitive style of seeing things ... in whole rather than in parts while Westerners tend to do the reverse” (1986, p. 147). Furthermore, the Chinese “will try to synthesize the constituent parts into a whole so that all parts blend into a harmonious relationship at this higher level of perceptual organization” (p. 148).

Hence there are two possible explanations. First, it is likely that the managers in China, including those in IJV firms, are not well acquainted with the importance of stakeholder management. Should this be the case, the stakeholder salience model will only be useful for explaining why some firms are unable to deal effectively with their stakeholders. Their managers simply have failed to perceive the power, legitimacy, and urgency of these stakeholders. Should this be the case, it is important for the research community in general to focus on and extend the *normative stakeholder identification* portion of the model by Mitchell, Agle and Wood (1997).

Another possibility is that the managers in China are indeed managing their stakeholders effectively. They might be managing in a different way. Given the greater stakeholder interdependence observed in the literature [Boisot & Child, 1996; Xin & Pearce, 1996], and the mode of thinking conditioned by Chinese culture [Yang, 1986], Chinese managers may be mapping salient stakeholders as a *stakeholder cluster*, that is, as groups of stakeholders with greater interdependence among them. There exists some evidence supportive of this possibility. As reported earlier, many of our interviewees emphasized that it was not the customer per se but the market condition or “market atmosphere” that was important. This so-called “market atmosphere” appears to be a cluster of entities including several stakeholders, and possibly other factors such as infrastructure, and natural conditions. Another researcher [Lenn, 1996] also reports the likelihood of primary stakeholders embedded in a complex network of relationships. Should this be the case, a model of stakeholder management will then need to propose relevant stakeholder *cluster* attributes. Will the same three attributes apply equally well? What other attributes might there be? These are but some of the useful questions to ask.

In our research we also incorporated the IJV model by Parkhe [Parkhe, 1993]. We treated the four attributes associated with IJV success as key elements in dealing with IJV partners, a unique set of stakeholders as far as stakeholder management is concerned. A question for future consideration is how we relate the four key dimensions of IJV success, trust, reciprocity, forbearance, and opportunism avoidance, to the key dimensions of stakeholder salience, power, legitimacy, and urgency. If we should consider the stakeholder one by one, separately and independently, or other dimensions we may uncover, should we develop a model of stakeholder clustering or networking. For the latter inquiry, Rowley’s application of network theory in stakeholder management [Rowley, 1997], published too late to be included in our research design, would be well worth testing in future research.

Our research findings related to the current understanding of the stakeholder salience (if we are to subscribe to the present model) proves to be equally interesting not only for managers but also for academic research. Clearly we

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only took a snap shot of the stakeholder management “practice” at a brief moment in a major transformation. We noted that several groups were perceived as possessing greater salience than others, and some with none. Given the transition taking place in China, researchers may find it an ideal laboratory for studying how the stakeholder attributes change over time, and how managers react to these changes. From a *stakeholder clustering* standpoint, we may suggest that those stakeholders who currently are perceived to be nonstakeholders since they possess none of the three attributes identified earlier nor any interdependence with members of the stakeholder cluster. From a dynamic point of view, those non-stakeholders would in time become crucial stakeholders as they individually or collectively acquire power, legitimacy and urgency and as they become more central to Parkhe’s four attributes of IJV success. If this *stakeholder clustering* notion is relevant at all, several research questions appear to be promising: What attributes will enable stakeholders to become members of a *stakeholder cluster*? And what factors will lead to their exclusion from it? Answers to these questions will no doubt be useful for both managers and academics.

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338-88851
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ACKNOWLEDGEMENTS

The APRG wishes to acknowledge the financial and administrative support from the Faculty of Business and Law, and the Collaborative Research Group on Australian Business in the Asia-Pacific region, that has made possible the production of this Working Papers Series as well as the Occasional Seminars preceding it. The active participation of staff members in various sections of the Central Queensland University has also been instrumental in progressing the APRG's various activities.

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Date of Publication: August 1998
MS Publisher File Name: aprg-wp4.pub