Top Level Management Diversity and Firm Performance in Sino-Foreign Joint Ventures: The Moderating Role of State Ownership

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Statement of Originality

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to the final version of my thesis being made available worldwide when deposited in the University’s Digital Repository, subject to the provisions of the Copyright Act 1968.

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This study examines how top management team (TMT) diversity affects the firm performance and is structured in form of two self-contained papers. The first paper has a scholarly focus and extends the upper echelons literature by investigating the effects of both TMT and board of directors (BOD) diversity on Sino-foreign joint ventures (JVs), conditional on state ownership. Based on data from 137 JVs listed in China, the first paper offers empirical support for the suggestion that the international experience diversity of the BOD is positively related to firm performance, with state ownership strengthening the effect. While the nationality diversity of the BOD and TMT, and the international experience diversity of the TMT do not seem to affect firm performance. Consequently, a fine-grained examination of firm performance not only requires separate analyses of the TMT and BOD effects, but also consideration of the ownership constellation within the institutional contexts prevailing in emerging economies. Based on the findings produced in the first paper, the second paper provides managerial implications about how the JV top level team structure may enhance firm performance. Especially, the second paper suggests that non-Chinese investors should focus more on establishing boards with diverse international experience but not be too concerned about the members’ national backgrounds when partnering with state-owned enterprises in China; whereas the composition of the TMT may be of less a consideration to enhance performance of a new JV. In doing so, the second paper elaborates detailed managerial guidelines.
INTRODUCTION

As the world’s largest emerging economy and second largest economy, China is an important market for multinational companies (MNCs) that seek to further substantiate their global position. More than ninety-five percent of the Fortune 500 companies already have a presence in China. Establishing a joint venture (JV) is the preferred entry mode to get a foothold in the maturing and expanding Chinese economy, but there have been many JV failures: only a few have succeeded, even after years of operation. To ensure a better chance of success, it is common for MNCs to assign their own staff to the top management team (TMT) in the new JVs as to represent their interests, and yet the performance of new JVs is still questionable. With China’s open-door policy having been established for more than thirty years, there are eminent lessons that can be learned from past JV cases so as to attain a higher success rate.

The composition of the TMT is closely tied to managerial strategic decision-making and hence firm performance, as suggested by Hambrick and Manson (1984) in upper echelons theory. There is consistent evidence of the existence of some sort of a relationship between TMT demographic diversity and firm performance. However, the particular effect of TMT composition on performance has been ambiguous, as different types of diversity can either benefit or detract from team performance (Jackson & Joshi, 2011). According to Certo, Lester, Dalton and Dalton (2006), even though a considerable amount of research has used reliable demographic data to investigate the relationship between TMT diversity and firm performance, the findings from such studies have not been consistent. Certo et al. (2006) explain that the mixed findings in TMT research could originate from differences in TMT definitions and operationalisations based on the accessible data domain of different researchers; often
rather studying the top level team rather than just the TMT. A nuanced view should distinguish the TMT from the board of directors (BOD) with their respective roles being an entity’s operational management and corporate governance bodies. Hence, some inconsistencies in the findings reported might be due them being based on treating both entities as one—being the TLT (Top Level Team)—rather than separately. Therefore this study argues that separation of the two (BOD and TMT) may generate a more meaningful interpretation, especially in China, where BOD power overrules that of the TMT (Fu et al., 2002), thus making diversified TMTs less contributable.

Among different demographic characteristics, when TLT diversity is being evaluated in terms of internationalisation, typically only either diversity in international working experience or nationality is considered (Nielsen, 2010) but not both individually. The limitation of using either one proxy as TLT internationalization is that it may account for the impact of one’s country of origin or cultural background, or the impact of any other international experiences due to having worked in a different country or culture. Previous research has suggested that there is a distinction between diversity in observable (nationality) and non-observable (international working experience) attributes. Observable diversity is expected to have a negative effect on team interactions due to prejudices (Milliken & Martins, 1996), and it is the opposite for non-observable diversity. Hence, nationality and experience should be evaluated distinctly instead of a substitution of one by the other for understanding consequences concerning firm performance.

This study investigates the influence of the TMT and BOD individually on firm performance in China. In addition, as the Chinese government remains the largest shareholder in many listed companies, which is different from many Western contexts, the ownership type of the JV Chinese partner should be taken into account. This is
important as different types lead to respective institutional constraints and competitive advantages (Gao et al., 2010). State-owned enterprises (SOEs) usually are laden with various resources such as receiving substantial government support, preferential bank loan rates, and attractiveness to talent. Hence, the TLT-performance relationship may be conditioned by ownership type in a Sino-foreign JV; an argument that will be explored in this study.

Based on the above, this study is to examine the following three main hypotheses:

1. TMT internationalization (separately for international experience and nationality) diversity is positively related to Sino-foreign JV performance.

2. BOD internationalization (separately for international experience and nationality) diversity is positively related to Sino-foreign JV performance.

3. State-ownership moderates the positive relationship between TLT (separately for the BOD and the TMT) and Sino-foreign JV performance.

This dissertation is structured in form of two self-contained papers. The first paper is predominantly focused on producing a contribution to theory through the development of the above-mentioned three main hypotheses, with respective empirical testing that draws on the quantitative analysis of data collected from 137 Sino-foreign JVs in publicly accessible databases such as Bloomberg, GTA Data, and company websites. The second paper puts the emphasis on the development of a managerial framework that draws on the findings from first paper with additional illustrative examples.
Top Level Management Diversity and Firm Performance in Sino-Foreign Joint Ventures: The Moderating Role of State Ownership

Abstract

A large body of literature has examined how top management team (TMT) diversity affects firm performance. This paper extends that literature by investigating the effects of both TMT and board of directors (BOD) diversity on Sino-foreign joint ventures (JVs), conditional on state ownership. Extensive studies of the diversity-performance relationship have provided mixed findings in developed economies, with little research pertaining to emerging economies. Based on data from 137 JVs listed in China, this paper offers empirical support for the suggestion that the international experience diversity of the BOD is positively related to firm performance, whereas the nationality diversity of the BOD and TMT and the international experience diversity of the TMT do not seem to affect change in return on assets. Furthermore, the paper demonstrates that state ownership strengthens the effect of BOD international experience diversity on firm performance. Consequently, a fine-grained examination of firm performance not only requires separate analyses of the TMT and BOD effects, but also consideration of the ownership constellation within the institutional contexts prevailing in emerging economies.
Introduction

Upper echelons theory, developed by Hambrick and Mason (1984), suggests that the composition of the top management team (TMT) affects the quality of managerial decisions and ultimately firm performance. In the last 20 years, researchers have found consistent evidence regarding a link between TMT demographics and firm performance (Carpenter, Geletkanycz, & Sanders, 2004; Finkelstein, Hambrick, & Cannella, 2008). Scholars who examine the effects of the demographic characteristics of diverse management teams (e.g. age, gender, functional expertise, nationality and experience), argue that the diversity-performance link occurs because these characteristics are associated with (or proxies for) cognitive difference, thus enhancing decision-making capability in diverse teams (Nishii, Gotte, & Raver, 2007). Hence, the advantages bestowed by a diverse team composition are primarily attributable to the breadth and diversity of the knowledge and experience available when making decisions (Bantel & Jackson, 1989).

Among the various demographic characteristics, executives’ international experience and nationality have been shown to be particularly important factors in shaping the lens through which executives and their teams understand and react to strategic opportunities (Carpenter et al., 2004). Previous research on job-related (e.g. experience) and demographic (e.g. nationality) diversity has identified two critical perspectives: information and social identity (van Knippenberg, De Dreu, & Homan, 2004; Williams & O’Reilly, 1998). The information-based or decision-making perspective holds that diversity in composition provides groups with a broader range of relevant knowledge on which to draw (Williams & O’Reilly, 1998). The social
identity perspective considers the positive and negative effects of the perceived similarities or dissimilarities between members on actual decision-making processes.

In an international business context, diversity in nationality and experience is more likely to be a feature of management teams, either as a consequence of global staffing practices in diversified multinationals or as a result of collaborative entry modes. In the case of an equity-based entry mode such as a joint venture (JV), diversity may be featured at both the management (TMT) and governance (board of directors (BOD)) levels. However, as many extant studies do not make an adequate distinction between the TMT and the BOD, or treat them as one entity - commonly referred to as the top level team TLT - the relative effect of each as a performance-enhancing source of diversity is poorly understood. Moreover, the BOD and the TMT play different roles that affect firm performance, and it is important to examine these roles separately to evaluate their effects; specifically, their respective effects on the performance of Sino-foreign JVs in China.

As the roles and required memberships of the BOD may differ across countries, distinctions between the BOD and its governance roles relative to the role of the TMT may be greater in certain institutional environments. This paper argues that this may be especially important in China, where decision-making is still a top-down process, which can make it difficult to gain advantages from diversified TMTs alone (Fu et al., 2002). Furthermore, because China is still classified as an emerging economy in international indices (MSCI, 2013) and continues to experience large-scale change in its competitive environment (Qian & Wu, 2003), the effects of TMT and BOD diversity must be understood in this dynamic context. Upper echelons research has argued that environmental dynamism can result in a lack of clarity
regarding the relationship between actions and outcomes, such that decision-makers’ experience may be used more than decisions based principally on rational quests for market information (Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984). The implications for decision-making in foreign firms may be that insufficient information necessitates more decision-making informed by subjective perspectives based on experience (Boyle et al., 2013). In response to the information deficiencies that can lead to a competitive disadvantage that foreign firms in China commonly endure along with other liabilities of foreignness, firms may choose a collaborative market entry (Williamson & Zeng, 2004). Beyond the advantage in market knowledge enjoyed by any domestic partner, this study outlines how in China, where the government remains the largest shareholder in many listed companies, further advantage may be enjoyed through JVs involving state-owned enterprises (SOEs).

Foreign firms have additional costs compared to local firms as they are less familiar with the prevailing social and political conditions that affect commercial transactions (Dunning, 1993). The rules for market competition remain less clear and unforeseeable than most Western economies as effective institutions such as legal infrastructure are still evolving (Li, Poop, & Zhou, 2008). The institutional voids force firms to rely on social ties as a substitute for institutional structures. Political connections matter in China in that they can reduce the costs of transacting information in the Chinese institutional environment (Chen, Chen, & Huang, 2013; Li & Zhang, 2007; Peng & Luo, 2000). Moreover, beyond SOEs’ potential political embeddedness, they enjoy greater access to governmental financial support (Li & Zhang, 2007) and banks are more willing to lend to SOEs in China as they typically already have the other resources needed to execute strategic plans, including access to
production rights (Tan, 2002). Thus, the potential value of having the ‘best’ joint venture partners with the right connections should not be underestimated. Consequently, this paper examines why and how state-ownership may moderate the positive effects of diverse TMTs and BODs in Sino-foreign JVs. For instance, a state-owned JV partner has a stronger position from which to leverage decision-maker capacity by easing institutional challenges in China (Peng, Wang, & Jiang, 2008), which can provide the JV with better access to resources to deploy (including information resources) and better deployment opportunities through preferential treatment. The breadth and diversity of knowledge on which the JV team draws when making decisions includes, by default, enhanced knowledge of regulator preferences, which is advantageous in China as the state is still a ‘major player’ throughout economic activity (Xu & Zhang, 2008). In addition, and perhaps counter-intuitively, this paper demonstrates why SOEs’ JV partners can attract better talent and deliver more innovations in China than non-SOE partners (Woetzel, 2008).

Using 2010-2011 data from 137 listed Sino-foreign JVs in China, this paper articulates and tests a number of hypotheses based on the abovementioned characteristics. There is a separate measurement of the relationship between the diversity of TMT and BOD nationality and international experience and firm performance, and ownership type is explored as a moderator. The empirical results substantiate that the diversity of the BOD’s international experience is positively related to firm performance (change in return on assets), whereas the same is not the case for TMTs. The nationality diversity of both the BOD and the TMT does not have a significant effect on firm performance, and SOEs act as moderators to enhance the
relationship between the diversity of the BOD’s international experience and its firm performance.

A detailed discussion of these findings is presented in the penultimate section of this paper before conclusions are drawn, reflecting on how these findings inform extant theory. The first section of the paper reviews relevant theory to develop hypotheses.

Theoretical Framework and Hypotheses Development

Top Level Teams (Top Management Team and Board of Directors)

Although some researchers argue the importance of considering both the TMT’s and the BOD’s influence on firm performance (Finkelstein et al., 2008; Jensen & Zajac, 2004; Rivas, 2012), previous studies on TMT and BOD effects have largely treated them separately (Nielsen, 2010). Rivas, Harmori and Mayo (2009), and Rivas (2012) find that although the Chief Executive Officer and TMT have been studied most when examining firm internationalization and performance, few papers have investigated the BOD and they did not identify studies that have analyzed jointly the effects of the BOD and the TMT on internationalization. The gap between TMT and BOD research may be particularly detrimental to understanding the effect of upper echelons in varying institutional contexts; especially those in emerging countries such as China. According to Certo, Lester, Dalton and Dalton (2006), a considerable amount of research has investigated the relationship between TMT characteristics and firm performance, and while the demographic data used have been reliable and
accessible, the findings from such studies have not been consistent. Drawing on the insights from a meta-analysis of TMT indicators and firm performance, Certo et al. (2006) explain that differences in TMT definitions and conceptualisation could possibly account for the mixed findings in TMT research. This may be due to the fact that researchers rely on various TMT definitions that are accessible in their domain to construct heterogeneity measures. As simple as the TMT definition appears, there is in fact no consensus among researchers regarding its exact definition and there are at least six different measures used to specify TMT members (Finkelstein et al. 2008). For example, Carpenter (2002) defines the TMT as the chairperson of the board, chief executive officer (CEO), president, chief operating officer (COO) and the second-highest executive tier (e.g. senior or executive vice-presidents (VPs)); Halebian and Finkelstein (1993) define the TMT as executives who also serve as inside directors; Hambrick and D’Aveni’s (1992) definition includes all officers above the VP level. The respective scholars use different definitions of the TMT to conduct their research based on the accessibility and availability of data. Therefore, even if they use the same heterogeneity measurement approach (e.g. Blau’s index) to compute TMT heterogeneity, the results can be different if they refer to different TMT definitions. Recent reviews point out that the separation of the BOD and the TMT within traditional upper echelons research may be one mechanism through which inconsistencies in findings can be addressed (Nielsen & Nielsen, 2012).

Upper echelons research separating the BOD and the TMT relates to a range of firm decisions (see for example, Brunninge, Nordqvist, & Wiklund, 2007; Kor, 2006), implying that such separation and the simultaneous investigation of the BOD’s and the TMT’s discrete effects enhances one’s understanding of their distinct interactive or
potentially divergent influence (Boeker & Wiltbank, 2005). For example, Jensen and Zajak (2004) find that the effect of an individual’s characteristics varied depending on whether they are a CEO, outside director or non-CEO TMT member. Carpenter et al. (2004) and Finkelstein (2008) also point out the importance of extending upper echelons theory to assess the impact of the BOD on organizational outcomes. Similarly, Kaczmarek (2009) uses international experience and nationality as the diversity measurements of team internationalisation and finds separately identifiable effects when TMT and BOD internationalisation are evaluated separately for a sample of firms from three European countries. In the UK, both BOD and TMT international experience diversity are positively related to firm performance, whereas BOD and TMT nationality diversity does not have any significance. In the Netherlands, there are significant relationships between diversity in BOD nationality, BOD experience and TMT nationality and firm performance, but the effects are negative. In Switzerland, the effects of diversity on firm performance are similar to those in the UK in that BOD experience, TMT experience and TMT nationality are positively related to firm performance. Accounting for both the BOD and the TMT, Castro, De La Concha, Gravel and Perinan (2009) and Rivas (2012) also find positive effects on strategic change and on firm internationalization. Hence, the separate treatment of TMT and BOD internationalisation diversity reveals some distinct effects on firm performance. The effects of the diversity of BOD international experience on firm performance hold for two of three years of observation. Yet, the effects of other diversities (BOD nationality and TMT experience and nationality) are only observable for one out of three measured years. Notwithstanding the inconsistent findings from Kaczmarek (2009), it can be concluded that the effects of TMT and BOD diversity on performance are not necessarily the same and may differ across countries. Therefore, it
is important to separate BOD and TMT diversity when assessing its effect on firm performance, and to consider the country within which the firm operates.

The roles of BOD and TMT members can be defined as an entity’s corporate governance and operational management bodies, respectively. As the governance body, the BOD is the guardian of transparency and accountability in major financial and business dealings, defending the interests of investors and wider stakeholders. However, beyond this regulatory role, the BOD is ultimately responsible for the business’s performance, which it guides by agreeing on the company’s strategic direction and by monitoring its performance (Ingley & Van der Walt, 2001). As the firm’s operational management body, the TMT directs the allocation of resources and oversees the day-to-day operations of the firm (Michel & Hambrick, 1992). Because the BOD and the TMT have different roles that affect firm performance, it is important to examine their roles separately when evaluating their respective effects on Sino-foreign JV performance in China (hereafter, the term ‘top level team’ (TLT) is used to represent the combined BOD and TMT members). As Brunninge et al. (2007) and Castro et al. (2009) point out that governance research would benefit from studies that examine the composition of both the BOD and the TMT in producing key organizational outcomes.

There is also a lack of sufficient empirical insights about governance in emerging economy contexts (such as China), as the majority of corporate governance studies have been confined to the developed economies collectively known as the Anglo-American system, particularly the United States and the United Kingdom (Peng et al., 2008). The research on agency theory has assumed dispersed ownership with a separation of owner and control. The conflicts between shareholders and managers
have been reviewed as principal-agent conflicts (Jensen & Meckling, 1976). However, dispersed ownership is a rather uncommon rule around the world, as the controlling ownership of most corporations is highly concentrated in the hands of a state or family (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Wang, 2014). This is especially true in emerging economies where key conflicts reflect principal-principal conflicts between controlling shareholders (state or family) and minority shareholders (Young et al., 2008). Wang (2014) identifies that in 2011, the state is still the largest shareholder holding 42.2% of all shares of Chinese listed companies while the average is 43.7% during the period of 2003-2011. Hence, the primary internal governance through the BOD can be affected by the dominance of controlling shareholders in emerging economies.

A standard prescription of agency theory is to improve corporate governance by introducing additional independent directors to the board in an effort to improve firm performance. Yet studies by Peng (2004) and Peng, Buck and Filatotchev (2003) in China and Russia fail to identify the relationship between outside independent directors and firm performance. The BOD in the Anglo-American system emphasises the control, advice and resource provision to the management. However, the control function is typically only window dressing in emerging economies, as controlling shareholders seem to avoid sharing control with another party (Yeung, 2006; Young et al., 2008). Au, Peng and Wang (2000) and Young, Ahlstrom and Bruton (2004) report that the resource dependence function is more pronounced for Chinese than for Anglo-American boards, with the Chinese BOD playing a greater role in the acquisition of resources.
Upper Echelons Theory and the Consequences of Demographic Diversity

Upper echelons theory holds that the diverse experiences and individual characteristics of a firm’s leadership, including the TLT, influence their understanding of conditions and information which in turn affects their judgments and decisions (Cannella & Hambrick, 1993; Finkelstein, 2008; Hambrick, 2007; Hambrick & Mason, 1984). In particular, demographic backgrounds and job-related experiences influence the deep-level cognitive frameworks or mental models influencing what is known and how an individual analyses information (Carpenter et al., 2004; Nielsen & Nielsen, 2011). In addition, studies underpinned by group process and social cognition theories have found that demographic diversity leads to decreased ‘strategic consensus’, defined as the extent to which individuals’ cognitive frameworks overlap (Knight et al., 1999). It follows that the compositional diversity of the TLT’s pertinent attributes should generate a broad range of knowledge (Carpenter et al., 2004; Eisenhardt & Schoonhoven, 1990; Hambrick, 2007). This study focuses on two attributes related to internationalisation: nationality and international experience. Both nationality diversity and international experience have been argued to provide teams with cognitive diversity (Kilduff, Angelmar, & Mehra, 2000; Williams & O’Reilly, 1998) and yet they lead to different preferences and strategic choices. Specifically, international experience which is limited in time and scope, brings benefits such as global market intelligence, skills and contact networks for decision making; whereas nationality influences the fundamental values and cognitions of the decision-maker as the basis for strategic choices (Nielsen & Nielsen, 2011).

Individuals from the same national background share similar perspectives through exposure to national institutions such as culture and education (Choi, Nisbett,
Therefore, a diversity of nationalities is argued to provide a team with a breadth of knowledge that is not available to homogeneous groups (Kilduff et al., 2000; van Knippenberg & Schippers, 2007), and it is also linked to differences in information processing and problem solving (Mannix & Neale, 2005; Stahl, Maznevski, Voigt, & Jonsen, 2009). Nielsen and Nielsen (2011) find that nationality diversity helps the TMT perceive the risk and complexity confronting an international JV that eventually outperforms a homogenous group concerning the range of perspectives and alternatives generated, as diverse nationality backgrounds are more likely to engage in constructive debate. International experience, reflecting the extent to which an individual has gained occupational expertise in different international contexts (Hambrick, 2007), also influences individuals' knowledge and provides teams with diverse international understanding that results in access to increased knowledge assets through differences in perspective (Horwitz & Horwitz, 2007; Stahl, Mäkelä, Zander, & Maznevski, 2010; van Knippenberg & Schippers, 2007). Prior research finds that TMT international experience helps reduce the uncertainty associated with international expansion (Sambharya, 1996) as it increases the awareness of international opportunities and helps in the development of a superior ability to manage cross-cultural JVs (Tihanyi, Ellstrand, Daily, & Dalton, 2000). It also serves as a surrogate for cultural knowledge that is necessary for formulating and implementing strategy successfully (Nielsen & Nielsen, 2011; Sambharya, 1996).

However, reviews of the effect of team composition have tended to yield ambiguous results, and different types of diversity can benefit and detract from team performance (Horwitz & Horwitz, 2007; Jackson & Joshi, 2011; van Knippenberg &
Several perspectives can account for the divergent effects of team composition (Barkema & Shvyrkov, 2007; Nielsen, 2012; Stahl et al., 2009; van Knippenberg et al., 2004; Williams & O’Reilly, 1998). The first, termed the information-based or decision-making perspective reflected in the current positive-effect discussion, holds that diversity in composition provides teams with a broader range of valuable pertinent knowledge than less diverse teams (Williams & O’Reilly, 1998). In contrast, less diverse teams are less likely to raise challenges, share unique knowledge or use extensive knowledge assets to inform their proposed solutions (Bantel & Jackson, 1989).

The second mechanism suggests a different and typically negative effect of diversity underpinned by social identity theory and social categorization (Ashforth & Mael, 1989; Barkema & Shvyrkov, 2007; Tajfel & Turner, 1986). The social identity perspective on diverse composition argues that perceived similarities and dissimilarities between members of a diverse team provide the basis for categorization into subgroups (Lau & Bruton, 2011). Likewise, in diverse teams, members will often split into subgroups based on points of difference, such as nationality (Dahlin, Weingart, & Hinds, 2005; Nielsen & Nielsen, 2012). Building on the similarity-attraction paradigm and intergroup bias theory, this process is likely to lead to conflict. Certo et al. (2006) summarise key arguments on this negative effect that include interpersonal conflict and the association of categorisation that sorts individuals into social categories, which causes individuals to think positively of their own categories and negatively of others - discouraging informal communication.

Previous research has also suggested that these perspectives tend to apply more or less to different types of diversity. One very useful distinction is between diversity...
Diversity in observable attributes reflects differences that are relatively easy to perceive, immediately and obviously, through team interaction (Nielsen, 2012). Studies have suggested that demographic variables such as age, race and gender are easily observable attributes. Diversity in nationalities, in particular, has previously been categorised as a form of observable diversity (Jackson, May, & Whitney, 1995; Nielsen, 2012).

Diversity in underlying attributes refers to differences that are not immediately apparent and only become known after significant member interaction. Typically, job-related forms of diversity such as international experience are categorised as non-observable. These types of characteristics are not readily detected through simple observation, but rather require knowledge of a person’s previous experience, usually through interaction (Jackson et al., 1995). International experience is a job-related form of diversity that is categorised as non-observable. Most of the arguments offered to explain the effects of non-observable diversity assume that these attributes are associated with underlying cognitive variables (Lawrence & Lewin, 1997; Tihanyi et al., 2000). Several management studies have shown that job-related/experience-based diversity can lead to a wider range of perspectives, which can help generate new strategic choices (Austin, 1997; Castro et al., 2009; Nielsen & Nielsen, 2011; Rivas et al., 2009) that may lead to improved firm performance.

Research has supported this differentiation between observable and less observable types of diversity. Both forms lead to underlying cognitive differences; however, observable diversity can also have a substantially different effect on member interaction than its non-observable counterpart. When differences between people are
visible, they are more likely to evoke responses that are due directly to prejudices (Milliken & Martins, 1996) and Pelled, Eisenhardt and Xin (1999) argues that visibility influences the social categorisation outcomes of diversity by triggering individuals’ thoughts about difference. In light of this, diversity is expected to have a negative effect on team interactions with such observable differences, in contrast to non-observable diversity. The effects of observable (nationality) and non/less-observable (experience) types of diversity within the TLTs of Sino-foreign JVs are discussed further in the next section.

**Nationality and International Experience of TLTs in Sino-Foreign Joint Ventures**

As noted, nationality is an important and observable aspect of the TLT’s background and orientation, and there has been significant support for the national background’s capacity to inform differences in cognitive frameworks. The cross-cultural psychology literature suggests that national origin affects personality (Triandis & Suh, 2002), orientations and values (Hofstede, 1980). Hambrick, Davison, Snell and Snow (1998) state that nationality has major advantages over other characteristics in considering the orientations of individuals from different cultures, as it is analytically tractable and thus coincides with the implicit or explicit employee categorisations applied in many global enterprises as the basis for considerable research on individual differences. In the context of strategy formulation, TLT nationality has implications not only for the personalities and dynamics within the team but also for its strategic decision making (Kilduff et al., 2000). Watson, Kumar and Michaelsen (1993), and Sanders and Carpenter (1998) show that nationally diverse teams outperform homogenous teams in a range of situations. This diversity leads to viewing a particular issue from different perspectives, improving the quality
of decision making. In contemporary global corporations, a multinational TLT is sought and developed as a competitive advantage through its global HR system. Therefore, nationality diversity in TLTs may help firms better understand and interpret competitive environments. However, as nationality is an observable aspect of diversity, it must be acknowledged that it may be more likely to provide social categorisation (Jackson et al., 1995; Nielsen, 2012) that could lead to drawbacks for team dynamics prompted by conflict and lower cohesiveness due to different communication patterns and interaction styles (Earley & Mosakowski, 2000; Turner, 1987).

As previously noted, international experience is a job-related attribute that is not easily observable (Horwitz & Horwitz, 2007), and the benefits of a TLT’s international experience are well established (Athanassiou & Nigh, 1999; Carpenter, Sanders, & Gregersen, 2001). Similar to nationality, international experience entails psychological accompaniments in the form of cognitive schema. The access to resources acquired through foreign working experiences also increase firms’ competitive advantage (Daily, Certo, & Dalton, 2000). Carpenter (2002) and Carpenter et al. (2001) provide evidence of the positive relationship between a TMT’s international experience and firm performance. Sambharya (1996) finds that a TLT’s international work experience is positively related to firm performance through better management development, coordination of international affiliates and information sharing and processing among foreign affiliates. Roth (1995) also finds that a TLT’s international experience is positively related to income growth in firms with internal coordination across borders. On top of the added skill sets and cognitive complexity, international experience may also relate to networks of trust and reputation in
countries - factors associated with firm performance (Teece, Pisano, & Shuen, 1997). For instance, some prescriptions about multinationals emphasise the importance of strategic alliances (Gupta & Govindarajan, 1991) facilitated by trust and reputation between managers in overseas operations or strategic partners. International assignments are more likely to facilitate the development of relationships within wider, possibly worldwide networks (Lublin, 1996), and these overseas assignments tend to build stronger connections amongst people. Therefore, theoretical evidence is emerging in support of international experience being valuable to firm performance.

In contrast to nationality, however, international experience is not easily observable in intra-team interactions (Jackson et al., 1995). Thus, there is a lower risk that members will categorise others on the basis of international experience, or that associated stereotypes or biases will negatively affect collaboration (Christian, Porter, & Moffitt, 2006).

In summary, the effect of a TMT’s international experience on firm performance is supported in the strategy literature (Carpenter, 2002; Carpenter et al., 2001). Although the role of nationality is less straightforward (Richard, Barnett, Dwyer, & Chadwick, 2004), nationality diversity remains strongly associated with certain advantages, including the generation of more and better quality solutions (Cox, Lobel, & McLeod, 1991). Therefore, although this diversity is often associated with increased team conflict, the negative consequences with respect to team performance tend to diminish over time (Earley & Mosakowski, 2000; Watson et al., 1993). Thus, it is hypothesised that TMT nationality and international experience diversity is positively related to JV performance.
Hypothesis 1a: TMT nationality diversity is positively related to Sino-foreign JV performance.

Hypothesis 1b: TMT international experience diversity is positively related to Sino-foreign JV performance.

BOD Diversity and Performance

As established above, the BOD affects firm performance (Zahra & Pearce, 1989). Finkelstein and Hambrick (1996) outline two key functions that describe the relationship between the board and firm performance. First, BODs hold the most influence and control over determining the strategic direction and decision making within organisations. Second, BODs fulfil a monitoring role in addition to representing shareholders, including monitoring the use of the organisations’ capital; hiring key senior management and the CEO, particularly determining senior management compensation; and overseeing TMT performance. Hillman and Dalziel (2003) provide insights into the two main and distinct paths that link BODs and firm performance. According to agency theory, a key activity for boards is to monitor senior management on behalf of shareholders and this monitoring can improve firm performance by reducing agency costs. In contrast, resource dependency theory implies that the BOD can be a provider of resources offering two kinds of capital: human capital related to experience, expertise and reputation, and relational capital related to networks of ties. With respect to the latter perspective, there are four primary benefits provided by BODs, including (Hillman & Dalziel, 2003) advice, legitimacy, access to communication channels between external organisations and the firm and preferential access to support from external bodies. These resources help reduce dependency between the firm and external contingencies, diminish uncertainty for the firm and
lower transaction costs - all outcomes that ultimately aid firm survival. Masulis, Wang and Xie (2009) find that firms benefit from the international perspectives and subject matter expertise of foreign independent directors, and that foreign directors make better cross-border acquisitions when the targets are from their home regions.

A BOD’s demographic diversity has also been shown to have a positive association with firm performance (Billimoria, 2006; Carter, Simkins, & Simpson, 2003; Erhardt, Werbel, & Shrader, 2003). In addition to the benefits of cognitive diversity outlined above, Miller and Triana (2009) find that BOD diversity can yield improved innovativeness and a stronger reputation that can strengthen a firm’s performance. Giannetti, Liao and Yu (2013) find that BODs with international experience facilitate the transfer of knowledge, which includes the transfer of advanced management practices gained from international experience (Bloom & Van Reenen, 2007; Hall & Jones, 1999; Jones & Romer, 2009). Finally, as resource dependence theory states that firms act in the ways associated with their level of dependence on various resources (Pfeffer & Salancik, 1978), a BOD can serve as a dependence-reducing body for the firm by linking relationships, knowledge or information that reduce uncertainty. The contributions of the BOD increase with the resources brought to the firm; resources that are not easily substituted by other alternatives. An example of this would be a board member’s technical knowledge within an industry or country, or his or her relationship with a unique supplier that would be difficult or even costly to imitate (Bryant & Davis, 2012). Hence, a BOD can generally offer two types of resources: human capital as indicated by experience (Eisenhardt & Schoonhoven, 1990) and social capital as indicated by external ties (Shane & Cable, 2002). Experience is a prime source of learning that leads to expertise
and skills in various functional areas, enabling firms to more efficiently and effectively develop, produce and market new technologies and products (Li & Zhang, 2007). Therefore, based on these BOD-based benefits and those concerning TLT diversity, it is hypothesised that:

_Hypothesis 2a: BOD nationality diversity is positively related to Sino-foreign JV performance._

_Hypothesis 2b: BOD international experience diversity is positively related to Sino-foreign JV performance._

**Sino-Foreign Joint Ventures and the Moderating Role of State Ownership**

Social ties (called Guanxi in China) are a deeply ingrained institution in China as they provide a pervasive means to conduct business locally (Li, Poop, & Zhou, 2008). For foreign firms that seek to prosper in the world largest emerging market, cultivating ties with local business counterparts and government officials is essential as who one knows is more important than what one knows (Tsang, 1998). Empirical work shows that social ties improve firm performance in China and other emerging economies as the connections help firms access necessary resources to foster firm growth (Peng & Luo, 2000). After all, China has the 5,000 years long tradition of using social ties to coordinate transactions. Compared with non-SOE, SOE can be a better local JV partner for foreign firms as having stronger social ties may facilitate having state backing on preferential band credit access, government subsidies and favourable procurement contracts.
Although the proportion of JVs in foreign direct investment (FDI) (19.2% in 2010) has declined in China, it is still a significant mode of entry, especially in some restricted industries where foreign investors may benefit greatly from forming a JV as an entry mode (Ministry of Foreign Commerce, 2011). Partnering with a local partner can be a highly valuable way into the Chinese market (Devonshire-Ellis & Hoffmann, 2009), and can bestow legitimacy on foreign investors when accessing other resources that they require locally to leverage a JV (Dunning, 2000; Li & Li, 2010). These motivations for engaging in a JV remain relevant and may further increase the number of JVs as the Chinese economy seeks growth through domestic consumption and engagement in protectionism, which may make autonomous growth difficult. Hence, the JV model may remain an increasingly popular approach (Borgonjon & Hofmann, 2008). Coupled with enduring motivations such as using local partners to help access valuable resources and to cope with uncertainties in the Chinese environment (Reuer, Tyler, Tong, & Wu, 2012), JVs remain an important mode of market entry in China.

Given the importance of JVs as a form of entry, choosing the right partner is a major strategic consideration for foreign firms and, in China, it is a selection decision that will include many potential state-owned partners because the ownership structure in Chinese listed companies is highly concentrated by international standards (Bai, Tao, & Wu, 2004; Xu & Wang, 1999). Despite recent privatisations of SOEs, the state still retains significant shareholdings in many listed companies in China, especially in the protected industries such as energy and telecommunications (McGregor, 2012). The degree of state control over companies is still much greater than that in other former planned economies such as that of Eastern Europe (Sun & Tong, 2003).
Private and public ownership have been frequently studied in market economies (Besley & Ghatak, 2001; Boardman & Vining, 1989; Shleifer, 1998), but in China the interplay between the ‘market’ system and ownership is more complicated (Peng, 2003; Zhao, Anand, & Mitchell, 2005). In addition to SOEs, there are also collectively owned entities (Peng, Tang, & Tong, 2004; Zhao et al., 2005). Due to the blurring of boundaries between collectively and privately owned firms in terms of different privatisation statuses, they are considered to be non-SOEs. However, according to Zhao et al. (2005), there are clear differences between ownership types, and traditional SOEs tend to perform better than non-SOEs. A number of China-centric explanations are available for why SOEs can potentially outperform their non-SOE counterparts (with palpable consequences for their relative value as JV partners).

SOEs are generally larger in size, more attractive to managerial talent and receive preferential treatment (Ke, 2008). Regarding the ability to attract talent, it is apparent that ‘state ownership’ in China has very different connotations to what might be assumed about SOEs in Western market economics. Furthermore, the competitive consequences are significant, given that foreign firms consider recruitment and retention of talent as key competitive challenges in China (American Chamber of Commerce, 2013), even exceeding concerns about the infringement of property rights.

SOEs also receive better financial support from the government, such that they face less financial risk and are consequently more likely to take risks and be innovative (Gruber, 2013). SOEs also enjoy greater access to government information and support (Li & Zhang, 2007) and banks are more willing to lend to SOEs in China.
as they typically already have the other resources needed to execute strategic plans, including access to production rights (Tan, 2002).

Scholars have convincingly demonstrated that political factors matter in China, in that they can reduce the costs of transacting information in the Chinese institutional environment (Chen, Chen, & Huang, 2013; Li & Zhang, 2007; Peng & Luo, 2000). Thus, SOE partners may also possess information access advantages. Although the value of political connections changes over time, the benefits of political embeddedness in China are not likely to evaporate in the foreseeable future (Sun, Mellahi, & Thun, 2010). Despite tremendous opportunities for foreign investors to access markets through partnerships with domestic partners in China, JVs in China are still associated with various institutional contexts that remain underdeveloped, resulting in high levels of uncertainty and elevated transaction costs of doing business (Reuer et al., 2011). However, because ownership type is an important factor indicating a firm’s institutional and contextual constraints (Peng, 2003; Peng & Heath, 1996; Tan, 2002) in China, there is some potential for state-ownership to ease institutional constraints on performance (Peng, 2009).

In the above context, having a state-owned JV partner may provide access to resources (including information and market access) that allow for a more effective leveraging of decision-maker capacity across the TLT while also providing the JV with better deployment opportunities. Moreover, with access to superior local talent and the ability to attract the best internationally mobile talent to an SOE-JV, the breadth and diversity of knowledge the JV seeks to leverage may also be enhanced. Therefore, it is hypothesised that:
Hypothesis 3a: State-ownership amplifies the positive relationship between TMT nationality diversity and Sino-foreign JV performance.

Hypothesis 3b: State-ownership amplifies the positive relationship between TMT international experience diversity and Sino-foreign JV performance.

Hypothesis 3c: State-ownership amplifies the positive relationship between BOD nationality diversity and Sino-foreign JV performance.

Hypothesis 3d: State-ownership amplifies the positive relationship between BOD international experience diversity and Sino-foreign JV performance.

Based on the above discussion, the effect of TLT diversity on Sino-foreign JV firm performance is examined, with ownership type (i.e. SOE or non-SOE) as a moderator. The classification of Sino-foreign JVs and ownership aligns with the official Chinese system of corporate categorisation. It is also consistent with the approach that has been widely used in previous related Chinese studies (Chang & Wong, 2004; Sun & Tong, 2003; Zou & Adams, 2008). The theoretical framework is developed as per Exhibit 1 below.
In this section, the estimation procedure used to empirically test the hypotheses is described, followed by an outline of the operationalisation of the variables and a clarification of the data sources. Ordinary least square regression (OLS) is used in the current analysis as according to Nielsen (2010a), she finds that upper echelons researchers largely (85%) rely on OLS regression as the conventional statistical approach following a review of those journal articles published in the top ten international journals on upper echelons diversity studies. The hypotheses, including those capturing moderating effect, are tested using multiple regression analysis employing the software SPSS18. Hypothesis testing is based on examining the significance values produced through multiple regression analysis (ie, values smaller
than 0.05). In addition, a positive coefficient (i.e., interaction) is interpreted as enhancement of the relationship while a negative one as weakening the relationship.

The major constructs in this study include TLT nationality and international experience diversity. Diversity is defined as the collective amount of differences among members within a social unit and has been used in this way in studies using team members’ characteristics to predict firm performance (Harrison & Klein, 2007; Horwitz & Horwitz, 2007). Diversity in this study is measured using the Blau’s index (Blau, 1977; Michel & Hambrick 1992; Wei & Lau, 2012). The Blau’s index builds on this qualitative difference argument and is the most commonly employed measure for diversity (Harrison & Klein, 2007). The Blau’s index is equivalent to 1 minus the summation of $P_i^2$, with $P_i$ being the proportion of individuals in the $i$-th category. For example, in a TMT with 10 members, of which 4 are Chinese and the remaining 6 are American, the Blau’s index is:

$$1 - \left(\frac{4}{10}\right)^2 - \left(\frac{6}{10}\right)^2 = 0.48$$

Thus, if Chinese and foreign TLTs have the same nationality or international experience diversity (each 50%), the apex of the firm is closer to the diversity index of 0.5. On the opposite end of the continuum, if all members of the TMT or BOD have the same nationality or international experience, the index is zero.

**Sample and Data Collection Procedure**

There are two stock exchanges in mainland China: Shanghai and Shenzhen. The data are generated drawing on the listed companies on these two Chinese stock exchanges in 2010 and 2011. There are about 1,900 listed companies, and the effective
number of JV companies is 167 (before removing outliers) after considering the availability of information and the requirement that the companies are Sino-foreign JVs. TLT internationalisation and firm performance data are obtained from the Bloomberg and GTA databases, the latter of which is one of the major providers of Chinese data, including accounting and market information. Information on the TLTs’ nationality and international experience was assessed using data generated from the executives’ biographies published on company websites and in annual reports. Subsequently, individual senior managers’ profiles were crosschecked for missing records. Sino-foreign JVs were identified first based on the share nature of each listed company in the stock exchanges. Accordingly, 167 companies were selected because they have foreign ownership as major shareholders (top 10 largest shareholders). These JVs are then classified into SOE JVs or non-SOE JVs based on the share nature. In conclusion, the data stem from publicly accessible sources - Bloomberg and GTA - and accuracy is ensured through cross-checking with annual reports.

Table 1 provides the descriptive statistics for the independent and dependent variables for 137 Sino-foreign JV observations in 2010 and 2011, after removing the outliers from the data. The sample firms, on average, are about 67% (33%) SOE (non-SOE). The average foreign share in each firm is more than 25%. This is in line with the minimum requirement that at least 25% of the capital must be contributed by a foreign partner of the established JV (China Hand, 2012). When specifying the total number of TLT members, an elimination of double-counting is reflected in the total size to avoid duality. On average, a TLT comprises 16 members - a size that is compatible with the finding of Giannetti et al. (2013) that there were an average of 10 board members for listed companies in China from 1999 to 2009. There is a higher
level of diversity in international experience than in nationality across the TLTs. This is particularly the case for local Chinese TLT members with overseas experience and Chinese nationality. In addition, diversity of the BOD’s international experience is greater than that of the TMT. This is in line with Giannetti et al. (2013), who find that firms can experience a brain gain from foreign best practices at the board level. Nationality diversity in the BOD is also higher than that of the TMT, perhaps because foreign national TMT members commonly experience expatriate terms that are more lucrative than those offered to local talent. Hence, unless better terms can be justified, local Chinese might take these positions. The descriptive statistics illustrate that the data are appropriate for this research.
Table 1 - 137 publicly listed Sino-foreign JVs, descriptive statistics

<table>
<thead>
<tr>
<th>Item</th>
<th>Variable</th>
<th>Mean</th>
<th>Stddev</th>
<th>Median</th>
<th>Min</th>
<th>Max</th>
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<td>2.000</td>
<td>6.000</td>
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<td>15.000</td>
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<td>2.000</td>
</tr>
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<td>0.142</td>
<td>0.000</td>
<td>0.500</td>
</tr>
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<td>7</td>
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<td>0.160</td>
<td>0.153</td>
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Remark Description
1  Control variables: Industry (6 types), Log FirmSize, TotalTLT (both TMT and BOD) and FirmAge
2  NatM= nationality diversity of management team
3  ExpM= international experience diversity of management team
4  NatD= nationality diversity of BOD
5  ExpD= international experience diversity of BOD
6  SOE= ownership type; 1=SOE and 2= non-SOE
7  NatCom= nationality diversity of management team + board of directors
8  ExpCom= international experience diversity of management team + board of directors
9  NatCom x SOE = product of NatCom and SOE
10  ExpCom x SOE = product of ExpCom and SOE
11  NatM x SOE = product of NatM and SOE
12  ExpM x SOE = product of ExpM and SOE
13  NatD x SOE = product of NatD and SOE
14  ExpD x SOE = product of ExpD and SOE
15  ChgROA = performance measured by change in ROA from 2010 to 2011
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<td>ExpD x SOE</td>
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<td>0.08</td>
<td>0.18</td>
<td>0.01</td>
<td>0.14</td>
<td>0.66</td>
<td>0.89</td>
<td>0.41</td>
<td>0.50</td>
<td>0.74</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NatM x SOE</td>
<td>-0.01</td>
<td>-0.06</td>
<td>0.11</td>
<td>-0.19</td>
<td>0.05</td>
<td>0.46</td>
<td>0.44</td>
<td>0.93</td>
<td>0.75</td>
<td>0.48</td>
<td>0.45</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ExpM x SOE</td>
<td>-0.09</td>
<td>0.09</td>
<td>0.11</td>
<td>-0.10</td>
<td>0.07</td>
<td>0.41</td>
<td>0.54</td>
<td>0.76</td>
<td>0.93</td>
<td>0.43</td>
<td>0.56</td>
<td>0.82</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>NatCom</td>
<td>0.10</td>
<td>0.09</td>
<td>0.10</td>
<td>-0.02</td>
<td>-0.18</td>
<td>0.96</td>
<td>0.78</td>
<td>0.62</td>
<td>0.57</td>
<td>0.85</td>
<td>0.65</td>
<td>0.55</td>
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<td>1.00</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>ExpCom</td>
<td>-0.05</td>
<td>0.09</td>
<td>0.18</td>
<td>-0.04</td>
<td>-0.14</td>
<td>0.77</td>
<td>0.93</td>
<td>0.61</td>
<td>0.69</td>
<td>0.67</td>
<td>0.83</td>
<td>0.55</td>
<td>0.63</td>
<td>0.82</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NatCom x SOE</td>
<td>0.09</td>
<td>0.09</td>
<td>0.07</td>
<td>0.03</td>
<td>0.10</td>
<td>0.87</td>
<td>0.69</td>
<td>0.55</td>
<td>0.49</td>
<td>0.96</td>
<td>0.73</td>
<td>0.60</td>
<td>0.54</td>
<td>0.90</td>
<td>0.73</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ExpCom x SOE</td>
<td>-0.08</td>
<td>0.09</td>
<td>0.19</td>
<td>0.02</td>
<td>0.17</td>
<td>0.65</td>
<td>0.83</td>
<td>0.52</td>
<td>0.60</td>
<td>0.73</td>
<td>0.94</td>
<td>0.57</td>
<td>0.67</td>
<td>0.70</td>
<td>0.90</td>
<td>0.78</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>ChgROA</td>
<td>0.04</td>
<td>0.09</td>
<td>0.14</td>
<td>0.16</td>
<td>0.11</td>
<td>-0.06</td>
<td>-0.01</td>
<td>-0.10</td>
<td>-0.08</td>
<td>0.07</td>
<td>0.15</td>
<td>-0.05</td>
<td>-0.01</td>
<td>-0.09</td>
<td>-0.08</td>
<td>0.03</td>
<td>0.07</td>
<td>1.00</td>
</tr>
</tbody>
</table>
**Measures**

**Dependent variable**

Firm performance can be measured by accounting- and market-based indicators (Shen & Cannella, 2002), the former (latter) of which reflect the current operational performance (investors’ perceptions). This study focuses on operational performance, but not one that is market-based for three reasons. First, market valuation (operational performance) is often beyond (within) management control. Second, accounting measures are commonly used by TLTs and are easily achieved. Finally, accounting measures ultimately provide for the effect that a diversified team has on actual operational performance, whereas investor reactions do not. Return on assets (ROA), which is defined as after-tax net income over total assets, is generally accepted as a financial performance measure in empirical research (Cagwin & Barke, 2006). Many studies have used change in ROA to measure improvements in financial performance (Biggart, 1997; Easton & Jarrell, 1998; Ittner & Larcker, 1999). Furthermore, evidence from previous research has shown a high correlation between ROA and other profitability measures (Prescott, Kohli, & Venkatraman, 1986), and ROA is more readily available in business units than other measures (Aaker & Jacobson, 1987). Hence, ROA is selected as the dependent variable because it is well-understood and widely used to measure operational performance (Shen & Cannella, 2002).
Change in ROA is a useful measure for comparing the contributions that TLT diversity make to firm performance. For instance, this approach is applied by Kung, Hu, Zhang and Hu (2010) who use change in ROA to measure the effect that cultural similarities have on merger and acquisition performance. Various other studies (Cagwin & Barker, 2006; Fan & Lo, 2012; Kung et al., 2010; Shen & Cannella, 2002) have used change in ROA as the performance measure due to its wide use, availability and consideration of accounting for time-lagged effects. Hence, the focus here is on change in ROA from 2010 to 2011, as it reflects the time-lagged effect of TLTs’ diversity on firm performance based on the 2010 TLT structure.

**Independent variables**

Blau’s index (Blau, 1977; Michel & Hambrick, 1992) is used to calculate the relevant heterogeneity index for the independent variables, including:

a. Nationality diversity of the TMT  
b. International experience diversity of the TMT  
c. Nationality diversity of the BOD  
d. International experience diversity of the BOD

TLT members are identified according to the firms’ annual reports. The TMT includes the executives (General Manager, President, CEO, Deputy General Manager, Vice President, Secretary to the Board and other managerial persons, excluding directors). The BOD members are the Chairman, the directors and independent directors (GTA, 2012). A TMT member with a non-Chinese (Chinese) nationality is counted as one (zero) in the diversity estimation. The same estimation applies to measuring the diversity of international experience. A higher index value denotes a TMT with more diverse backgrounds.
Ownership type is the moderator, classified as either SOE or non-SOE. Beginning with all of the listed companies in China, foreign ownership is first identified through the GTA database’s listing of Sino-foreign JVs, of which there are 167. Among the 167 JVs, those with either state shares or a state-owned legal person as shareholders are classified as SOEs; meanwhile, the collectively and privately owned entities (Peng et al., 2004; Zhao et al., 2006) are classified as non-SOEs. State shares refer to shares held by government agencies or authorised institutions on behalf of the state that cannot be traded on an open market. State-owned legal person shares are shares of a joint stock company owned by the state with a legal person status. The transfer and trading of legal person shares are restricted, whereas collectively and privately owned shares can be freely traded and transferred in China’s domestic markets (GTA, 2012).

**Control variables**

The control variables include industry type, the natural logarithm of firm size, firm age and TLT size. Industry type is coded per respective government guideline into seven categories. Industry type is considered because certain industries appear to involve local partners more commonly to access technological know-how from foreign partners in general or those that are not allowed to form a wholly foreign-owned JV. Firm size is the natural logarithm of the number of employees. Although larger firms have more resources, they may also be more bureaucratic, which can affect firm performance. Miller (1991) finds that accounting for firm size influences the relationship between executive characteristics and firm outcomes. Therefore, firm size is included as a control variable. Firm age is the number of years from establishment to 2010, according to annual reports. TLT size is the total number of members in the
TMT and the BOD as reported in annual reports. Larger TLTs can have members with greater differences in nationality and international experience (Kaczmarek, 2009). As duality may be present (a member of both the TMT and the BOD), double-counting does not occur in specifying the total size of the TLT.

**Outliers**

Outliers are determined using the interquartile range (IQR) technique [a point beyond inner fence - with lower inner fence: First quartile (Q1) - 1.5*(IQR); upper inner fence: Third quartile (Q3) + 1.5*IQR]. This technique is frequently used to set the whiskers in a box-and-whisker chart with IQR providing an independent check on the plausibility of robust limits as the true representation of the process (Herrmann et al., 2007; Paulk, LaScola, & Rajgopal, 2009). For the 167 JV identified, there are 137 valid JVs after the removal of outliers and the incomplete firms’ performance data. The reasons for considering these 30 JVs as outliers and removing them from the analysis are (a) their TLT firms’ performance are not reported so that analysis could not be conducted; (b) the TLT personal data are incomplete with no nationality or international experience history for diversity analysis; (c) the TLT size is beyond an upper inner fence (which is more than 27 members in the current analysis). Various researchers on TLT size and firm performance (He, Yang, & Chen, 2007; Hoffmann, Lheureux, & Lamont, 1997; Krishnan & Park, 1998) find that there is a close relationship between them. Ownership type is then applied as a moderator to observe its effect on TLT diversity and firm performance.

**Analytic Procedure**
The following regression model (Schematic I) is adopted to examine the effect that TMT international experience diversity has on firm performance, with state ownership as the moderating effect. Schematic II spells out the exact variables being used.

**Schematic I**

\[ Y = \beta_0 + \beta_1 X_1 + \varepsilon \]
\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 (X_1X_2) + \varepsilon \]
\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 (X_1X_2) + \beta_3 X_2 + \varepsilon \]

with \( Y \) = dependent variable, \( X_1 \) = independent variable and \( X_2 \) = moderator

**Hypotheses:**
- If \( \beta_2 = 0 \) and \( \beta_3 \neq 0 \), \( X_2 \) is simply an independent variable, not a moderator;
- If \( \beta_2 \neq 0 \) and \( \beta_3 = 0 \), \( X_2 \) is a pure moderator;
- If \( \beta_2 \neq 0 \) and \( \beta_3 \neq 0 \), \( X_2 \) is a quasi moderator.

**Schematic II**

(Equation 1) \( \text{ROA} = \beta_0 + \beta_1 \text{FSIZE} + \beta_2 \text{Age} + \beta_3 \text{TSIZE} + \beta_4 \text{Ind} \)

(Equation 2) \( \text{ROA} = \beta_0 + \beta_1 \text{FSIZE} + \beta_2 \text{Age} + \beta_3 \text{TSIZE} + \beta_4 \text{Ind} + \beta_5 \text{NatM} + \beta_6 \text{ExpM} + \beta_7 \text{NatD} + \beta_8 \text{ExpD} + \beta_9 \text{NatCom} + \beta_{10} \text{ExpCom} + \beta_{11} \text{SOE} \)

(Equation 3) \( \text{ROA} = \beta_0 + \beta_1 \text{FSIZE} + \beta_2 \text{Age} + \beta_3 \text{TSIZE} + \beta_4 \text{Ind} + \beta_5 \text{NatM} + \beta_6 \text{ExpM} + \beta_7 \text{NatD} + \beta_8 \text{ExpD} + \beta_9 \text{NatCom} + \beta_{10} \text{ExpCom} + \beta_{11} \text{SOE} + \beta_{12} (\text{NatM x SOE}) + \beta_{13} (\text{ExpM x SOE}) + \beta_{14} (\text{NatD x SOE}) + \beta_{15} (\text{ExpD x SOE}) + \beta_{16} (\text{NatCom x SOE}) + \beta_{17} (\text{ExpCom x SOE}) \)

**where:** \( \text{ROA} = \) change of return on assets (dependent variable)

\( \beta_0 = \) constant \hspace{1cm} \text{FSIZE} = \) logarithm of firm size (control variable)
\( \text{Age} = \) firm age (control variable) \hspace{1cm} \text{TSIZE} = \) TLT size (control variable)
\( \text{Ind} = \) industry type \hspace{1cm} \text{NatM} = \) nationality diversity of TMT
\( \text{ExpM} = \) international experience of TMT
NatD = nationality diversity of BOD
ExpD = international experience of BOD
NatCom = nationality diversity of TMT and BOD
ExpCom = international experience of TMT and BOD
SOE = ownership type

Regression Analysis and Findings

The regression results and graphical presentation are summarised in Table 3 and Figure 1 respectively.

Table 3 - Findings from regression models, significance <0.05 identified against performance (change of ROA)

<table>
<thead>
<tr>
<th>Item</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
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<th>11</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
<td>Control</td>
<td>NatM</td>
<td>ExpM</td>
<td>NatD</td>
<td>ExpD</td>
<td>SOE</td>
<td>NatCom</td>
<td>ExpCom</td>
<td>NatCom x SOE</td>
<td>ExpCom x SOE</td>
<td>NatM x SOE</td>
<td>ExpM x SOE</td>
<td>NatD x SOE</td>
<td>ExpD x SOE</td>
</tr>
<tr>
<td>Significance</td>
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<td>p&gt;.05</td>
<td>p&gt;.05</td>
<td>p&gt;.05</td>
<td>p&gt;.05</td>
<td>p&gt;.05</td>
<td>p&gt;.05</td>
<td>p&gt;.05</td>
<td>p&gt;.05</td>
<td>p&gt;.05</td>
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<td>p&gt;.05</td>
<td>p&gt;.05</td>
<td>p&gt;.05</td>
</tr>
<tr>
<td>Coefficient</td>
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<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>.5410</td>
<td>N/A</td>
<td>N/A</td>
<td>-1.4540</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Standard Error</td>
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<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>7.2251</td>
<td>N/A</td>
<td>N/A</td>
<td>13.4987</td>
<td>N/A</td>
<td>8.1169</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Figure 1: Normal P-P Plot of Regression Standardized Residual
The Effect of TMT Diversity on Firm Performance

According to the results (columns 2 and 3 of Table 3), there is no significant relationship between the diversity of TMT nationality or experience and firm performance. Therefore, Hypotheses 1a (TMT nationality diversity is positively related to Sino-foreign JV performance) and 1b (TMT international experience diversity is positively related to Sino-foreign JV performance) are not supported. This is consistent with Marimuthu and Kolandaisamy’s (2009) finding that demographic diversity in TMTs does not have any significant effect on firm performance. Although the majority of related research has shown that there should be a positive relationship, Wei, Lau, Young and Wang (2005) suggest that firms in China still do not have mechanisms to effectively harness the benefits of higher TMT heterogeneity. Likewise, Carver (2012) finds that BODs have significant authority over TMTs, even refusing to allow a CEO to make certain decisions at times because the BODs presume that their understanding and decisions are better than what the CEO contributes. In addition, decision-making within Chinese firms still reflects a top-down (authoritarian)
approach that obstructs the JV from gaining the benefits of a diversified TMT (Fu et al., 2002). Furthermore, Chinese TMT members may show more respect for the authority and seniority of other members to avoid conflict and demonstrate harmony. Therefore, divergent views may not be conveyed, even in diverse TMTs (Young, Ahlstrom, Bruton, & Chan, 2001). Hence, the benefits related to TMT heterogeneity may not be harnessed in such an institutional context.

The Effect of BOD Diversity on Firm Performance

Columns 4 and 5 of Table 3 show that while there is no significant relationship between a BOD’s national diversity and firm performance, there is a positive and significant relationship between the diversity of its international experience and firm performance (with a coefficient of 0.5410). This suggests that Sino-foreign JVs with boards that feature more diverse international experience tend to perform better. Therefore, while Hypothesis 2a (BOD nationality diversity is positively related to Sino-foreign JV performance) is not supported, Hypothesis 2b (BOD international experience diversity is positively related to Sino-foreign JV performance) finds empirical support. There are several factors that drive a person’s dispositional cultural characteristics far from their national tendencies. Examples of these characteristics include the amount of an individual’s international life experiences, such as international work assignments and overseas education, and that of their life experiences relative to other members of the same nationality, such as upbringing,
religion and education (Hambrick et al., 1998; Nielsen & Nielsen, 2012). International experience has a stronger effect on firm performance because it can serve as a surrogate for nationality-based differences, which is necessary in successfully formulating and implementing firms’ international strategies (Sambharya, 1996). The same experience helps establish informal networks that support strategic decision making in the dynamic global marketplace (Athanassiou & Nigh, 2002). The knowledge and network skills gained through overseas experience also enable BODs to accurately analyse the environment and formulate an appropriate strategy. Foreign experience can thus lead to fewer mistakes and increase the likelihood of firms’ success (Herrmann & Datta, 2002). McCall and Hollenbeck (2002) opine that international experience transforms executives through their acquisition of a global mind-set that comes not from home-country leadership challenges, but rather from novel cultural experiences. The transformation goes beyond the change in skill set that results from confronting a more complex environment during the international assignments, as such assignments facilitate the development of new and multiple perspectives. In addition, Masulis et al. (2009) argue that the effectiveness of BODs is determined by how well directors perform their monitoring and advisory roles. Therefore, firms benefit from the international perspectives and expertise of foreign directors.

The Effect of TLT Diversity on Firm Performance

As columns 7 and 8 of Table 3 show (when the TMT and the BOD are considered jointly as the TLT), there is no significant relationship between TLT nationality diversity and the firm performance measure. There is, however, a significant relationship between a TLT’s international experience diversity and change
in ROA (with a coefficient of -1.454), suggesting that JVs with TLTs that have more diverse international experience tend to exhibit inferior performance. The results are similar to the findings of Kaczmarek (2009) in the Netherlands, where international experience diversity reduces performance, contrary to the stated hypothesis. This inferior performance can be explained by the intergroup relationship between the BOD and the TMT as it is characterised by a lack of mutual understanding and distrust when the JV leaders are divided into separate groups: decision controllers (BOD) and decision managers (TMT). This view is based on the intergroup relations literature, which has found that group categorisation fosters distrust toward out-group members, creating the perception of intergroup conflict (Han and Zhang, 2011; Labianca, Brass, & Gray, 1998). The perception of division between in- (TMT) and out- (BOD) groups can reinforce a generalised sense of distrust across the two groups, leading to an escalation of distrust when out-group members exercise control (Kramer & Tyler, 1996). Umans and Smith (2013) also find that despite the fact that the BOD has the direct power to control the firm, the TMT is also a controlling group that acquires indirect power through the expertise, knowledge and information possessed from engagement in the day-to-day business. Hence, the interaction between the BOD and the TMT, together with the conflict involved, can negatively affect firm performance due to the rapport over control. In addition, there can be a curvilinear effect; that is, increasing diversity may be helpful to group functioning only up to a point, beyond which the costs can outweigh the benefits (Hambrick et al., 1998).

**The Moderating Role of State Ownership**

Columns 11 to 14 of Table 3 illustrate the moderation effects of SOE in Sino-foreign JVs. Accordingly, the involvement of an SOE as a local partner can
amplify the relationship between a BOD’s international experience and change in ROA, without influencing any other effects. Therefore, while Hypotheses 3a-3c are not supported, there is support for Hypothesis 3d (with a coefficient of 1.007), suggesting that the positive effect of a JV having a BOD with more diverse international experience is greater if foreign investors work with a state-owned local partner than if they work with a non-SOE partner. These findings are in line with Le and Buck (2011), who argue that SOEs within the Chinese context represent a strategic asset rather than burden. SOEs could lead to the state using its authority through administrative instruments such as taxation or preferential loan arrangements to support firms’ operations. Thus, firms’ revenues may increase and their expenses may diminish, improving their overall performance (Lu, 2000). Higher equity shares may even facilitate the incentive to gain above-normal preferential treatment (Lin, 2004). Gordon and Li (2003) and Lu, Thangavelu and Hu (2005) find that a higher state ownership in privatised firms can access favourable lending from state banks that extends to networks when obtaining capital through financial institutions. The state may also administratively ‘push’ its stake to improve profitability and demonstrate the efficiency of its involvement and economic reform (Green & Liu, 2005).

**The Moderating Effect of State Ownership Between TLT Diversity and Performance**

Column 10 of Table 3 reveals that the positive relationship between a TLT’s international experience and change in ROA is stronger if the Chinese partner is state-owned. The coefficient of 0.920 suggests that JVs with more diverse international experience in TLT tend to perform better when foreign investors work with state-owned local partners.
Limitations

Potential Endogeneity Issue

In this study, the TLT’s effect on firm performance, moderated by state ownership, is examined. The results indicate a positive effect with respect to the BOD, which appears even larger if the Chinese partner is an SOE. However, one could argue that reverse causality may be at play. However, this possibility is unlikely in the Chinese context for several reasons. First, Sun and Tong (2003) note that the shareholding percentage to be listed amongst state, private and foreign partners of the Sino-foreign JV is pre-determined at the time of IPO. The combination of share allocation is a reflection of various institutional factors including government policy, political situation and the respective industries’ allocation systems. Second, each party’s right to assign the number of members on the BOD and the TMT is clearly specified and fixed in the Articles of Association when the JV is formed. There can be changes in the BOD and the TMT from time to time, but each party, especially the foreign one, is not likely give up the right to assign a senior member to the BOD or the TMT. Therefore, TLT diversity should remain stable as each party seeks to maintain their influence within the JV. Reverse causality is also examined to verify that endogeneity is not likely, which is the case (please see Appendix 1). When treating change in ROA as the independent variable, diversity (BOD experience and nationality, TMT experience and nationality and TLT experience and nationality) becomes the dependent variable and SOE remains as a moderating variable, and none of the effects are significant (<0.05).
**Sampling**

This study’s sample is constrained by its single institutional context (i.e., China), and by the Sino-foreign JVs listed in 2011. The sample is also limited by the JVs listed on the two stock exchanges, which may not include the firms that have been granted JV status by local authorities but are not listed. However, the latter is not expected to differ from those studied here. Hence, further research could include JVs operating in different institutional contexts (rather than just China) and examine performance effects over several years rather than just two years.

**State Ownership Type**

State ownership is a multi-dimensional phenomenon that can be further subdivided into central, provincial and local government ownerships. In addition, the type of state ownership holding entity (state company or state asset management bureau) can have different governance mechanisms that relate to firms and ultimately affect their performance (Chen, Firth, Xin, & Xu, 2009). Further research could examine BOD and TMT performance effects in a more nuance fashion, considering different ownership levels and holding entities.

**Two-tier Board System**

Listed firms in China are required to have both a BOD and a supervisory committee, the latter of which is charged with overseeing both the BOD and the TMT. Thus, it would be interesting to include ‘higher’ independent directors on the BOD, as this may improve governance in these firms (Cho & Rui, 2009). Further research
could also examine such a two-tier board structure and the possible effects of ‘higher’ independent directors.

**Abstraction**

The quantitative research presented here does not fully reveal the processes underlying the statistically significant relationships. Although a plausible theoretical explanation is offered here, the data do not allow examination in sufficient detail. For instance, the full bargaining process surrounding the JVs, BOD and TMT formations are not fully understood, nor are the related legitimising efforts and failures in China. Some supplementary qualitative research may support the unpacking of these complexities (Doz, 2011).

**Regional Effect of JV Establishment**

As all 167 (before removing outliers) of the listed JVs that form the basis for the empirical research were chosen based on their foreign ownership nature, there is a possibility of regional effects that, for example, stem from preferential treatment in certain Chinese provinces or administrative regions instead of TLT heterogeneity or ownership type. This issue is addressed by examining the establishment of all 167 JVs. After deducting 41 JVs that were registered directly with the Ministry of Commerce under the central government, the 126 remaining JVs were established and registered in 23 different provincial levels out of the 36 province/municipality/special economic zone (SEZ) levels. Although the 4 municipalities and 5 SEZs are geographically located in respective provinces, they are classified at the provincial level as having provincial legislative rights sanctioned directly by the National People’s Congress, as
with the other 27 provinces (McGregor, 2012). Some JVs are also registered in municipalities such as Beijing, Shanghai and Tianjin and in SEZs such as Shenzhen, Xiamen and Zhuhai.

Blau’s index is used to evaluate the diversity of companies’ established locations. The finding that the index is 0.914 or equivalent means that the established location is very diverse (Appendix 2). According to Blau’s index, the 126 JVs were established in a very diverse pattern, suggesting that the findings are not due to preferential treatment of certain Chinese provinces or administrative regions, but due to BOD diversity and SOEs.

**Implications and Conclusion**

A number of important contributions to upper echelons research stem from this paper. It has important managerial implications regarding who might be nominated to a BOD, such as the skills and international experience firms would seek in these nominees; the value that might be placed on diverse TMT membership; and some implications for JV partner selection. However, these managerial implications are developed and discussed in some detail in Paper 2 of this dissertation. The focus here is to reflect on the implications of these findings for upper echelons research.

At the outset of this study, it was noted that while researchers have argued the importance of considering the influence of both the TMT and the BOD on firm performance (Jensen & Zajac, 2004), previous studies have not commonly examined their distinct effects jointly (Nielsen, 2010). The separation of the BOD and the TMT within traditional upper echelons research may be one mechanism through which
inconsistencies in findings can be addressed (Nielsen, 2012). This gap between TMT and BOD research may be particularly detrimental to understanding the effect of upper echelons in varying institutional contexts; especially those in emerging countries such as China. The finding that there is a positive and significant relationship between the diversity of a BOD’s international experience and firm performance in the absence of significant effects of TMT diversity adds considerable weight to the contention that both the TMT and the BOD should be subjected to simultaneous but distinct investigation. Although a combined TLT effect was also considered in this study, the results suggest that a combined measure alone would underestimate (i.e. fail to capture) the advantages bestowed by a diverse BOD in this sample.

In line with Peng et al. (2008), the proposition was raised that extant governance research, which has focused primarily on developed economies, has been set in very different institutional contexts, with consequences for both the role and potential influence of TMTs and BODs. However, while different effects are expected in this context, they are seldom studied. In contrast, this study presents a strong rationale to consider context and the effects of decision-maker diversity on Sino-foreign JV performance, which can also be interpreted in context. For example, the absence of a positive relationship between TMT diversity and performance might be explained by drawing on Fu et al. (2002), who conclude that decision making within firms is still a top-down (authoritarian) approach in China. Young et al. (2001) note that Chinese culture dictates respect for authority and seniority, which may amplify the potential influence of higher levels in the decision-making hierarchy - such as the BOD.
Although it is hypothesised that diversity in both nationality and international experience provides TMTs and BODs with a performance-enhancing breadth of knowledge (Kilduff et al., 2000; van Knippenberg, & Schippers, 2007) and increases information-processing capacity (Mannix & Neale, 2005; Stahl, Maznevski, Voigt, & Jonsen, 2009), different types of diversity can both benefit and detract from team performance (Horwitz & Horwitz, 2007; Jackson & Joshi, 2011; van Knippenberg & Schippers, 2007). Therefore, the distinction between diversity in observable or readily detectable attributes and that in less perceptible characteristics is also discussed (Nielsen, 2009; Tsui, Egan, & O’Reilly, 1992). Consistent with the understanding that national diversity is an observable form (Jackson et al., 1995; Nielsen, 2012), it is consequently more prone to the negative effects of diversity, such as conflict and biases during decision-making interactions. In contrast, job-related forms of diversity such as international experience are non-observable in that they require knowledge of a person’s previous experience, usually gained through interactions (Jackson et al., 1995), and thus are less prone to the negative effects identified. The findings from this study support the maintenance of this distinction, as only the international experience of the BOD was positively related to Sino-foreign JV performance. More broadly, the findings in relation to BOD diversity are consistent with other studies (e.g. Billimoria, 2006; Carter et al., 2003; Erhardt et al., 2003) that have also established a positive relationship between BOD diversity and firm performance. The finding relating to BOD international experience is consistent with Giannetti et al. (2013), who note that BODs with diverse international experience can be beneficial through the transfer of knowledge and the like. This is also consistent with the proposition that diversity in a BOD’s international experience brings resources to the firm that are not easily substituted by other alternative resources according to resource dependence theory.
Although several international business studies have examined the performance of JVs in China, this examination of the effect of state-ownership, through the lens of upper echelons theory, is unique. Based on the finding that state-ownership moderates the positive relationship between BOD international experience diversity and JV performance, future researchers are encouraged to consider (1) the consequences of ‘ownership’ in emerging economics; (2) whether the consequences of ownership are different in other institutional contexts; and (3) how ownership specifically affects the leveraging of the breadth and depth of knowledge in BODs of diverse composition. Although the regulatory and normative institutional ‘rules of the game’ (North, 1990) in China are certainly more stable and understood by foreign firms in 2014 than in the previous two decades of transition, JVs are still believed to be the best way to navigate the Chinese institutional landscape and to leverage crucial local connections (China Hand, 2012). The findings in this paper lend some credence to the notion that upper echelons research can assist us in understanding why.

The implications for management and practice are presented in Paper 2.
Enhancing Sino-foreign Joint Venture Performance: A Nuanced View of Top Level Management Diversity

Abstract

Sino-foreign joint ventures (JVs) are the preferred mode of entry to China, but failing JVs are reported constantly. The top management team (TMT) is critical in JV success, and Sino-foreign JVs are unique in that they often involve state ownership in an institutional context that is distinctive from that of JVs operating in developed countries. This paper provides a framework for arguing that the international experience diversity held by the board of directors (BOD) is positively related to firm performance, whereas nationality diversity among BOD and TMT members and the international experience diversity held by the TMT do not necessarily affect performance. The proposed framework outlines how the involvement of state-owned enterprises (SOEs) in Sino-foreign JVs strengthens the effect that the international experience diversity held by the BOD has on firm performance. This paper thus suggests that while non-Chinese investors should focus more on establishing boards with diverse international experience, they need not be overly concerned about their BOD members’ national backgrounds when partnering with SOEs in China. In contrast, TMT composition may not be a significant consideration in enhancing a new JV’s performance.
Introduction

With China being the world’s largest foreign direct investment (FDI) recipient in recent years (Perkowski, 2012), Sino-foreign joint ventures (JVs) remain the preferred mode of entry, yet failing JVs are reported constantly (Bosshart, Leudi, & Wang, 2010). As the case with any firm, the JV’s top management plays a crucial role in determining its performance. Although the effect that a firm’s top level team (TLT, including both the board of directors and the top management team) on performance has been studied (with diverse findings and predominantly in developed countries), there is little understanding of how a Sino-foreign JV’s TLT affects performance in these contexts. One of the major reasons for previous studies’ inconclusive findings is the presence of varying definitions of the TLT that do not distinguish between the diversity of the board of directors (BOD) and that of the top management team (TMT) (Certo et al., 2006). Sino-foreign JVs are unique in that they can involve state ownership in an institutional context that is distinctive from that of JVs operating in developed countries. Thus, foreign investors should address TLT formation and consider the ownership type of a local partner in China.

The Unpredictable Performance of Sino-foreign JVs

China first opened its doors to foreign investors in 1978. In the decades of reform since then, JVs have remained a key mode of entry for foreign investors. According to Chinese government statistics, from 1978 to 2011, 449,000 FDI projects were formed, 212,000 (47%) of which were JVs (Davis, 2013). Foreign investors commonly start JVs with local companies, which appears to be a safer approach due to
the latter’s access to markets and their influence with relevant government bodies in
the world’s second largest economy (Zhao, 2013).

The importance of JV operations in China can be illustrated by looking at
General Motors (GM) reclaiming in 2011 its status as the world’s largest car maker
surpassing its rivals Toyota and Volkswagen (Dawson, 2013). It is a title it held for 77
years after it survived bankruptcy in 2008. A key to GM’s comeback from the
financial crisis in 2008 was the contribution from its 49% owned JV in China. More
than half of GM’s profit (USD1.2 billion) in 2009 was generated in China, while its
other two traditional markets in the Americas and Europe were running at a loss
(“General Motor”, 2010). In fact, China is now GM’s largest market, with 2.8 million
vehicles sold per annum representing 32% of all annual cars sold; whereas in the
United States only 2.6 million were sold in 2012. The China JV alone contributed
USD1.5 billion to GM or 32% of the total profit in 2012. By 2020, the vehicle market
in China is expected to reach 30 million units per annum, up from about 19.3 million

However, positive JV experiences are not necessarily common. For example, a
survey of German enterprises operating in China (Tri & Bausch, 2007) reported that
while enterprises agreed that investing in China represents an important source of
potential growth, thus far such investments have not contributed to the bottom line.
According to a US-China Business Council survey of its 220 members in early 2013,
although 90% of the respondents reported that their China operations were profitable,
more than 71% reported that profits had remained essentially unchanged or had
in China fail to be profitable, even after years of operation. These authors further
suggest that the two major avenues for improving JV performance in China are to form a TLT that ensures suitable control and to choose a local partner that can make tangible business contributions while managing talent and safeguarding intellectual property. These two avenues are also examined in this paper.

**Separation of BOD and TMT under TLT**

With a focus on understanding what constitutes an appropriate TMT that should be formed, Hambrick and Mason (1984) put forward the upper echelons theory suggesting that TMT’s characteristics (such as demographic factors) influence the decisions made and practices adopted by its organisation which, in turn, affect firm performance. They argue that this occurs because a TMT’s demographic characteristics are associated with certain cognitive frameworks, values and perceptions that affect its decision making. Several studies (Dwyer, Richard, & Chadwick, 2003; Lee & Park, 2006; Nielsen & Nielsen, 2012) support the relationship between TMT characteristics and firm performance, as the qualities of a TMT are the essential foundation for a successful strategy process within any firm. Hence, analyzing TMT diversity can help understand how the TMTs may affect firm performance (Adams & Ferreira, 2009).

Although extensive studies (e.g. Hambrick, 2007; Hambrick & Mason, 1984) using upper echelons theory provide evidence for the existence of the TMT-firm performance relationship, there are also mixed findings from studies conducted in developed economies and little research pertaining to emerging economies. One major reason for such inconclusive findings, we argue, is that these studies do not always distinguish the TMT from the BOD clearly; or just commonly refer to the TLT in
respective studies. Certo, Lester, Dalton and Dalton (2006) identify that at least four
different definitions of the TMT have been applied to empirical studies, some of which
include the BOD whereas others do not. They also suggest that, in addition to
differences in the TMT’s definition, inconsistencies in its operationalization may
explain the mixed findings concerning the TMT-performance link. The composition
within the TMT and the BOD can differ, in general, and may also be affected by
differences in institutional contexts. Studying a combined entity such as the TLT may
not capture the nuances that a separate treatment of the TMT and the BOD could
allow; especially with respect to JVs operating in emerging countries such as China.
This issue may be due to a lack of transparent control and coordinating systems in
China during a rather nascent stage in their corporatisation process, although this
case is changing tremendously fast (Kang, Shi, & Brown, 2008). Decision-making
in China is still dominated by a top-down, authoritarian approach that limits the extent
to which firms can benefit from diverse members on their TMT (Fu et al., 2002).
Furthermore, as Chinese culture emphasises deference to authority and harmonious
relationships among team members, team members and subordinates are unlikely to
directly express their opposition to the CEO or board (Wei, Lau, Young, & Wang
2005). Therefore, the impact of the BOD should be considered separately, rather than
grouped with that of the TMT within a TLT.

The Approach to Measure Diversity and Performance

Diversity in national background and international work experience are two
characteristics of senior executives that have been examined (Nielsen & Nielsen,
2012). Different national backgrounds introduce variety in values, cognition and
personality features to the TMT while differences in international work experiences
affect the cumulative knowledge within the TMT concerning foreign values and cognitive mental models. Previous research, however, has commonly drawn on a single proxy for TLT internationalisation; that is, either TLT nationality or international experience (Nielsen, 2010). Furthermore, Carpenter and Reilly (2006) note the limitation of using a single proxy for TLT internationalisation is that it may account for the effect of national background, international experience, or both, yet there is no way to determine which aspect is being represented. International experience is an important dimension that considers a person’s exposure to various cultural environments. Therefore, the diversity of international experience bundled with that of nationality may form a stronger TLT group that, in turn, improves firm performance (Nielsen, 2010).

Regarding the measurement of performance, we note that while financial indicators such as return on assets (ROA) and profitability are common measures, they are less frequently used in developing countries to gauge JV performance due to the limited availability of such data. However, the growing transparency of listed companies in China has changed this and indeed, can now provide a basis for the framework put forward in this paper: ROA is available as a firm performance measure for Sino-foreign JVs as around 10% of the listed companies are JVs. The argument underpinning this framework builds on conclusions drawn using 2010-2011 data from 137 listed Sino-foreign JVs in China, including data about ownership type, to corroborate the role of TLT diversity and preferential partner type in Sino-foreign JVs. The framework articulated here shows that the diversity of the BOD members’ international experience is positively related to firm performance, but the same is not the case for the TMT. Meanwhile, nationality diversity in both the BOD and the TMT
does not affect firm performance. In addition, we illustrate that partnering with SOEs strengthens the effect that international experience diversity in the BOD has on firm performance. Drawing on these insights provides a basis to set up Sino-foreign JVs in a more effective way.

**Managerial Implications**

The managerial implications of this paper are that diversity in international experience within the BOD can enhance firm performance in China’s unique institutional context, which leverages the human capital as per resource dependency theory (Hillman & Dalziel, 2003). A BOD with diversity in international experience is beneficial, as it facilitates the transfer of knowledge and ensuing performance improvement in two ways. First, we argue that diversity in international experience can serve the BOD well in terms of knowledge that accelerates information processing (Sanders & Carpenter, 1998), as a vital asset (Carpenter, Sanders, & Gregersen, 2001) and as a potential source of competitive advantage (Spreitzer, McCall, & Mahoney, 1997). Second, such diversity among a BOD introduces more effective corporate governance from accumulated experience abroad with stronger incentives to pursue profitability as the JV’s fundamental mission being assigned to the JV based on previous overseas exposure (Giannetti, Liao, & Yu, 2013). The second key implication is that for those JVs with an SOE as the local partner, the impact of this international experience on performance is strengthened. This is consistent with Woetzel (2008), who draws on resource dependency theory to stress the beneficial role of relational capital. He argues that SOEs are better partners in controlling resources, leveraging relationships with the government and the communist party, attracting talent, being innovative and incurring less sourcing risk.
Our framework suggests that existing and impending foreign investors can benefit from establishing a suitable BOD with diverse international experience and from choosing an SOE as their local JV partner. That is, the JV leverages BOD international experience diversity, which provides access of best practices in a respective industry and more effective corporate governance, while SOE ownership gives preferential access to strategic local resources. These implications likely also hold in other emerging markets that are characterised by a similar institutional setting.

Exhibit 1 illustrates the traditional approach to Sino-foreign JV formation with neither a nuanced view of the TLT’s internationalisation nor ownership type consideration. Exhibit 2 outlines the proposed general framework with the three key guidelines for foreign investors to consider when forming a JV in China, based on the insights presented in this paper. These include achieving sufficient diversity in international work experience within the BOD as a key characteristic of a good Sino-foreign JV; not substituting the BOD’s international experience diversity with the nationality diversity of the BOD or TMT, or with the international experience diversity within the TMT; and ensuring the choice of an SOE as the local partner in the JV to amplify the positive effect that BOD diversity has on JV performance. These guidelines can be drawn on by Sino-foreign JVs when setting up or changing their BOD. They are particularly relevant in communist (or transition) countries that are transforming from a planned to a market-driven economy while maintaining a high proportion of SOEs.

Finally, examples of successful and unsuccessful JVs in China are presented throughout this paper to allow for comparisons between JVs based on the propositions outlined in Exhibits 1 and 2.
Exhibit 2 - Traditional Approach for Sino-foreign JV Formation
1. Set up JV by considering international diversity within leadership team; typically focused on either diversity in international working experience or nationality to drive JV performance, but not both
2. Consider the BOD and TMT not separately but as one combined entity—the TLT, when reflecting on international diversity
3. Involve local Chinese firm(s) without considering ownership characteristics and ensuing implications
4. Form new Sino-foreign JV with possibly questionable performance potential

Exhibit 3 - Constructive Approach for Sino-foreign JV Formation
1. Achieve sufficient diversity in international working experience within the BOD as a chief characteristic of a good Sino-foreign JV
2. Do not attempt substituting the latter through diversity in nationality within the BOD, or international working experience or nationality within the TMT
3. Ensure involvement of a SOE as the local partner in the JV to amplify the positive impact of BOD diversity on JV performance
4. Form new Sino-foreign JV with good performance potential

BOD = Board of Directors
TMT = Top Management Team
TLT = Top Level Management Team
Why Are JVs Different in China?

For more than two decades, and especially since joining the World Trade Organization (WTO), China has established itself as the top destination for FDI among developing countries and is now competing with the United States as the top location for investment in the world. Despite the global economic recession in 2008, China still managed to attract USD95 billion of FDI inflows in that year. According to the Chinese Commerce Ministry (Gray, 2014), China attracted a record USD117.6 billion in FDI in 2013, confirming investors’ confidence that the world’s second largest economy can keep growing at a solid pace while refining its growth model. Considering this business landscape, almost 480 of the Fortune 500 companies have invested in China during the past 30 years (“Most of world’s”, 2008). China is such an important market that playing to win in China is really the only option for multinational companies seeking to establish a global position (Gadiesh & Vestring, 2008). For instance, Colgate-Palmolive Company entered into a JV with one of China’s largest toothpaste producers in 1992, and then acquired China’s market leader for toothbrushes in 2002. After those two strategic investments, Colgate doubled its oral business revenues in China between 1998 and 2005 and now it exports its products from China to the rest of the world. The skills and experience that companies gain when competing in China also enable them to target other developing countries – one of the fastest growing segments of the global economy.

Strong economic growth can hardly be achieved in poorly regulated economies, as institutions support the effective functioning of the market mechanism (North, 1990). However, China has relatively underdeveloped formal institutions (such as ineffective legal settings and a lack of market transparency) and yet has enjoyed

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sustained economic growth over the last 30 years (Peng, Wang, & Jiang, 2008). Despite its rapid progression, China is still classified as an emerging economy in the process of moving from a socialist planned economy toward a mostly capitalist market-based economy. Emerging economies are characterised as ‘low-income, rapid-growth countries using economic liberalisation as their primary engine of growth’ (Hoskisson, Eden, Lau, & Wright, 2000). Although the processes and extent of economic liberalisation are qualitatively different across countries, foreign investors face one common denominator when investing in China; that is, a highly complex, unstable and largely unknown business environment undergoing rather profound and rapid changes (Li & Ferreira, 2008). China exhibits many of the tell-tale signs shared with other emerging markets, along with three unique institutional characteristics that increase the environment complexity for Sino-foreign JVs: inadequate legal institutions; high levels of government control within the capitalistic system; and social interaction-dominated networks.

Under inadequate legal institutions, it is difficult for firms to follow normal legal procedures to gain protection against unlawful behaviour. Specifically, property rights still lack appropriate protection under the constitution, with the interpretation of relevant rules lagging behind the written legal code (Burgers & Padgett, 2009). This situation is of concern to JVs, as they are responsible for protecting their intellectual property from local partners plagued by uncertainty and foreign partners struggling to predict authoritative judgments when disputes arise. Consider the case of Danone Group from France (51% ownership) and its 1996 JV with local partner, Wahaha. Danone became the top local beverage company, with a 15% market share, in ten years. Wahaha managed both the JV and a privately owned entity mimicking the JV’s
products, through which it siphoned off millions of dollars. Danone could only resolve the long-running legal dispute with its Chinese JV partner in 2009 by disposal of its stake to Wahaha. Such legal risks remain an important consideration for companies trying to establish JVs in China (Barboza, 2009) and this case will be discussed further in later section.

The Chinese government has preserved parts of the socialist system within the evolving market institutions, unlike many former communist Eastern European countries where the market opened rapidly and comprehensive reform occurred through related market mechanisms (Li & Ferreira, 2008). The emphasis on control may reflect a belief that the state might interfere in business operations from the JV’s perspective. For instance, after a decade of market research, McDonald’s Corporation formed a JV and opened the largest of its restaurants in Beijing in 1992, at the very heart of the Chinese capital. Underlying this was a lease with Beijing municipal government for 20 years. However, the Beijing government decided to evict McDonald’s after two years of operation. McDonald’s was forced to find an alternate site after the court ruled against it, even though the lease was legally binding. Although all markets have the potential for government interference, the interference often comes from multiple levels in China, as the various government entities have different or even conflicting interests in JVs (Peng & Luo, 2000).

China is also unique in the importance it places on formal and informal social interaction through networks. Social ties can proxy for a legal framework to rectify unlawful (probably also lawful) behaviour through a legitimating system. Managers can turn to social ties to enforce their legal rights in business contracts or stop unlawful behaviour. Foreign firms can gain social ties by setting up JVs with Chinese
local partners. When formal institutions fail, informal governance practices such as social ties (called guanxi in Chinese) can act as substitutes to facilitate economic activities (Peng, 2003). Institutional theory implies that social ties can be used as an alternative to formal governance procedures during early transition phases in emerging economies that lack market-supporting institutions. Foreign firms that start outside the critical networks without a local partner may have difficulty in determining who to connect with and how to establish a useful connection. Burgers and Padgett (2009) argue that relationships with the Chinese government are still an important determinant of JV effectiveness in China.

Establishing a Sino-foreign JV involving an SOE offers unique opportunities for foreign firms to reduce complexities, as SOEs can bring relational capital to the venture. A sound relationship with the Chinese government can be established through an SOE partner, and the foreign firm can then gain the localised knowledge and navigate the domestic legal and political environment. When evaluating JV investment opportunities, foreign investors face the dual task of appraising a local partner’s resources to better exploit opportunities and of effectively assessing various uncertainties to reduce related hazards. JVs are typically viewed as a more viable vehicle for exploiting opportunities in emerging and uncertain markets such as China, as local partners can access valuable resources and restricted industries while facilitating sequential commitments to cope with uncertainties (Reuer, Tyler, Tong, & Wu, 2012). For example, JPMorgan Chase, one of the leading global financial services companies, formed a JV with a local Chinese securities company in 2011 that allowed JPMorgan to underwrite stocks and bonds in mainland China (Trefis Team, 2011). This new JV aided JPMorgan’s initiative to increase its foothold in Asia, as it had
derived less than 14% of its revenues from outside the US market in 2010. The contribution from overseas markets was substantially less than its rival Citigroup, which generates more than 50% of its revenue from abroad. JPMorgan estimated the contribution from the new JV would represent an increase to 20% in the global institutional business. Although foreign investors have various means of accessing the Chinese market, JVs still make up a substantial proportion of foreign entries and investment.

The ownership structure in Chinese listed companies is highly concentrated by international standards (Bai, Tao, & Wu, 2004; Xu & Wang, 1999). Despite recent SOE privatisations, the state still retains significant shareholdings in many listed companies in China, especially in the protected industries such as energies and telecommunications (Trefis Team, 2011). The degree of state control exercised over companies is much greater than that in former planned economies such as Eastern Europe (Sun & Tong, 2003). Although there are tremendous opportunities for foreign investors to access resources and markets through partnerships in China, JVs are also associated with various uncertainties prompted by the underdeveloped institutions, which can result in elevated transaction costs of doing business (Reuer et al., 2012). Therefore, considering China’s unique institutional characteristics may produce insights that are distinct from those of previous research conducted in more developed countries such as the US and Western Europe (Peng, Tang, & Tong, 2004). For example, evidence of differences in the performance of JVs with and without SOE involvement could influence the investment strategies of foreign investors. Hence, foreign investors should evaluate the ownership type of potential local partners to achieve the expansion goals in emerging economies such as China. This paper
specifically considers the managerial implications of TLT diversity on Sino-foreign JV performance, conditional on whether the local partner is an SOE or a non-SOE.

Why Do Some Sino-Foreign JVs Fail While Others Succeed?

The JV Formation Process

The Greek philosopher Aristotle noted that, ‘Well begun is half done’. Although previous research has reached some agreement that finding the appropriate JV partner is important in achieving high performance, there is a limited understanding of the JV partnering process in Asia, especially China (Beamish & Lupton, 2009; Bruton & Lau, 2008; Ge & Chen, 2008). Beamish and Lupton (2009) specify a JV formation process and focus on the two critical paths – selecting a partner and negotiating terms – from which the majority of JV management issues stem, suggesting the need to discuss how they affect JV performance. Beamish and Lupton (2009) indicate that the JV mode connects foreign firms with new markets, knowledge, capabilities and other resources. Local partners can help foreign firms navigate unfamiliar business practices and sometimes increase the firm’s credibility in the eyes of local consumers. However, the JV can be challenging to manage, as two or more parent firms own it. The shareholding firms may have incongruent goals and different management styles. Although the JV as an entry mode has received substantial scholarly attention, the performance implications following its formation are ultimately more important (Geringer & Hebert, 1989). Given the various options concerning partner selection and the terms to be agreed upon, this paper emphasises
how to arrange the BOD and the TMT compositions, and advises whether to partner with an SOE or a non-SOE.

*The Blind Spot in JV Formation*

Although JVs are destined for success at the outset, failure is far from a rare occurrence. Chao, Rinaudo and Uhlaner (2013) interview senior executives from multinational corporations (MNCs) who have a combined experience of having managed more than 250 JVs globally. They estimate that 40 to 60 percent of these JVs underperformed or failed completely. Their interviewees stress that this is commonly the consequence of rushed negotiations. Even experienced business development managers often skip procedures by spending more time on the steps involving less risk, while less time on the steps where more value is at risk. For instance, some focus more on a deal’s financials because they are more comfortable as managers with merger and acquisition experience, than on the TLT nomination process. Other managers use ‘boilerplate agreements’ even in critical terms or in arbitration clauses instead of tailoring them to the specific deal. MNCs strive to be the pacesetter in the evolving trends of a dynamic market and aim at achieving the pre-set target of forming a JV as fast as possible. When the pressure to sign the JV contract on time meets the complexity of the JV establishment process, it can be overwhelming even for experienced business development managers. Although the best time to specify JV details is during the formation negotiations, too often foreign investors just let this moment slip by (Huang & Orr, 2007).

Another important detail that is commonly under-considered is the lack of distinction when contemplating the BOD and the TMT. Foreign investors usually
negotiate the TLT details with the local partner rather than considering the BOD and the TMT separately (Certo et al., 2006), assuming that both groups have the same effect on JV performance. This approach fails to capture the unique institutional context in China with respect to the dominant role played by the BOD, compared to that of the TMT. The negotiation process is extended when foreign investors focus on specifying certain membership structures for both the BOD and the TMT rather than placing greater emphasis just on the BOD. In one extreme, the potential JV falls apart when the two negotiating parties cannot agree on these terms. As negotiation is also a ‘give and take’ scenario, insistence on the nomination of certain TMT positions can come at the expense of other contract terms such as future dividend distribution rights or the foreign party’s intellectual property valuation. This paper explains why there are grounds for prioritising the international experiences of the BOD.

In addition, the ownership type of the local Chinese partner can be closely related to the JVs’ performance (Ge & Chen, 2008). The two types of local partners – SOEs and non-SOEs - have their own comparative advantages. SOEs commonly perform better because they are often larger in size, able to attract talent and enjoy preferential treatment from banks. In contrast, non-SOEs can be more efficient than SOEs due to an entrepreneurial mind-set that facilitates rapid growth (Bosshart et al., 2010). Recent studies, however, have stressed the need to take a nuanced view of the TLT with respect to looking at the BOD and TMT separately, specifically the type of internationalisation and ownership characteristics that matter in Sino-foreign JVs (Paper 1). This understanding enables foreign firms to perform better in JVs, and while the cause of specific JV failures cannot be pinpointed, this paper does illustrate
failures that notably did not have BOD international experience on which to draw and did not include a state partner.

Failed Sino-foreign JVs

It is more than fifteen years when Li, Xin, Tsui and Hambrick (1999) reported that they were not surprised why so many Chinese JVs failed but rather how any could succeed at all. Three illustrative Sino-foreign JV failures are presented here: one with neither BOD international experience diversity nor SOE involvement; another one with no BOD international experience diversity; and a third one with no SOE involvement.

Sino-foreign JV with neither BOD international experience diversity nor SOE involvement

Saturday Shoes Limited (Saturday) is a Sino-foreign JV formed by a Chinese entrepreneur (non-SOE) and a Singaporean company – Lyone Group. It was listed in 2009 with its main business as the production and sale of leather shoes. As its annual reports noted, since listing, there has been no board member with international work experience. Saturday’s underperformance is reflected in the fact that among the 45 shoe manufacturers listed in China, Saturday ranks 31st based on its financial performance (ROA) over a 3-year average (2011-2013). Its ROA is only 4.3% while the industry 3-year average is 11.7% (“Compare with the industry”, 2014). Saturday’s 2013 annual report also reflects that although there was a 17.5% increase in total revenues compared with the previous year, the net profit decreased by 38.3% to USD7.7 million, representing consecutive decreases in profit over two years, mainly
due to increased bad debt and higher inventory levels. There are also corporate
governance issues at play. For example, in 2011, Saturday was found to have engaged
in tax evasion (USD700,000) that resulted in a fine for the same amount charged by
the Tax Bureau. Of the 45 listed companies in the industry, Saturday is the only one
for which market analysts have advised disposal, even in the growing retail segment
(“Saturday Performance”, 2014.). Although Saturday was established by a foreign
investor, it had no BOD international experience diversity to, for example, provide
product development insights, corporate governance or new market development
understanding other than the capital for the JV.

*Sino-foreign JV with no BOD international experience diversity*

Sinovel Wind Group (Sinovel) is a Sino-foreign JV with a Chinese SOE
background that was listed in 2011 and has a focus of manufacturing and marketing
wind turbines. As its annual reports reveal, there have been no board members with
international work experience since its establishment, although a few of the TMT
members have such experience. Among the 934 firms listed in China since 2009,
Sinovel has been the worst performer, with a plunge of 83% from its IPO issued price
(Ma, 2014). Despite being a leading firm in the industry, Sinovel failed to pay back the
two corporate bonds that were due in March 2014 after it reported a loss of USD495
million in the 2013 fiscal year. It is also dealing with two lawsuits including the US
government accusing it of stealing intellectual property (IP) from a US company and
50 individual investors accusing it of providing fraudulent figures in 2011 that
mislabelled an additional USD149 million in revenues. Industry specialists presume
that Sinovel’s solvency is unavoidable, as it will struggle to end the loss-making
operation within a short period due to keen competition and a loss of credibility (Ma, 2014).

In Sinovel’s 2013 annual report, the board admitted that the poor performance was due to inappropriate corporate governance and deteriorating global market demand. Banks’ credit facilities have also tightened due to a lower credit rating, resulting in a high bank loan lending rate that further affects profitability. Management consultant firms have been engaged since October 2013 to analyse, identify and resolve the current problems. Sinovel’s case reveals that despite its TMT internationalisation, the lack of BOD international experience diversity to support corporate governance as a preventive measure has proven detrimental. Luo (2005) opines that the TLT’s international experience affects corporate governance and accountability systems such as accounting information, auditing standards and financial and non-financial disclosures. This could certainly have been a factor in this JV failure.

*Sinoforeign JV with no SOE involvement*

In 1996, the French food giant Danone incorporated a JV with a non-SOE, Wahaha Group, named Danone-Wahaha in which the former (latter) owned 51% (49%). Danone-Wahaha’s business scope was manufacturing and marketing various Wahaha-branded food products with revenues of €100 million in 2006. This decade-long successful venture turned sour in 2007 when Danone accused its counterpart of illegally selling competing products through a privately owned company using the Wahaha brand (Kwok, 2009). The JV dispute became more dramatic when Danone filed a lawsuit in Los Angeles in late 2007 against its
counterpart claiming IP infringement. The tensions grew until President Nicholas Sarkozy of France broached the matter with his counterpart, Hu Jintao, during a visit to China. Although some of the legal issues were arbitrated in Stockholm’s international court, the key IP issue was judged in China and favoured Wahaha Group. Knowing that the legal proceedings could drag on for years, Danone finally agreed to sell its 51% stake to Wahaha Group in 2009 despite having contributed the capital, technology and expertise necessary to make Danone-Wahaha the top beverage brand in China.

According to legal experts, many foreign companies struggle when trying to enforce their IP rights in China. Danone’s dispute was even more complicated, as it involved the owner of Wahaha Group – Zong Qunghou – a charismatic and media-savvy individual. Zong took the position of the patriot defending against foreign firms taking over the much-loved Chinese brand (Ollier, 2009). The same dispute could not have happened if Danone had partnered with an SOE, as the state would have tried to create a better environment for the foreign investor instead of publicising a dispute that led to an on-going evaluation of whether China has proper IP protections (Zhang & Van Deusen; Zhao, 2013).

In contrast to the aforementioned examples, there have also been cases in which the TLT characteristics and ownership structure have been conducive to JV success.
Successful Sino-foreign JVs

Two listed Sino-foreign JVs – Nantong Fujitsu and Chongqing Water Group – are selected to illustrate how BOD international experience diversity yields stronger performance that is strengthened through SOE involvement, irrespective of TMT internationalisation.

Nantong Fujitsu

Nantong Fujitsu Microelectronics Company (NFMC) is a Sino-foreign JV established in 1997 between Huada Group (an SOE) and Fujitsu Limited from Japan. NFMC specialises in integrated circuit (IC) assembly and large-scale testing services for memory, microprocessors, microcontrollers and analogue circuits. It was established in 1997 and then listed in 2007 with Fujitsu holding 20% of the shares and Huada holding 42% while the rest was held by the public. Fujitsu appointed three board members with international work experience (gained in Japan, Malaysia, Thailand and Taiwan) who brought a global vision to the JV. As stated in the initial public offering (IPO) document, this almost bankrupt ‘old’ Huada subsidiary was transformed from a company that had initially no internationalisation in the TLT into a Sino-foreign JV with three BOD members possessing international work experience. The TMT structure remained unchanged. Under the new JV contract, Fujitsu was to contribute the human capital, including corporate governance policy, technical know-how, strategic partners and overseas customers while Huada provided the relational capital including access to government financing, license approval and access to government contracts. The resulting synergies were gained from the following aspects.
One of the combined effects was the introduction of competitive new products with access to the local market. The new BOD members used their broader international experience to expand the JV’s vision and encourage not only competing with local rivals, but also gaining status as a technological pacesetter in China before going global. Reliable, high-quality IC equipment vendors in long-term relationships with Fujitsu were introduced to NFMC and offered competitive prices, despite the small quantities being ordered (NFMC IPO document). The board members from Fujitsu also helped NFMC access the latest technology from Fujitsu through a technology transfer agreement (NFMC Annual Reports). NFMC was the first specialised company in China assembling and testing IC at a large, industrial scale in 1997 – a revolutionary change given Huada’s previous position as an underperformed manufacturer of an obsolete electronic component (diodes). The foreign directors assumed a monitoring and consulting role to ensure that the industry’s best practices were being deployed in NFMC. In the last few years, NFMC has been amongst the top 100 electronics information companies and the top 10 IC assembling companies in China (NFMC Annual Reports).

Huada helps the JV gain domestic sales rights – a very complex, time consuming task that would not be possible if Fujitsu were a wholly foreign-owned enterprise with production in China. Indeed, American companies in China have reported (US-China Business Council, 2013) that SOEs have access to government contracts that foreign firms do not have (even inefficiently). For instance, the Beidou Navigation Satellite System (BDS) developed by the Chinese government was previously restricted to the Chinese military, and now is partially open for commercial use (“China’s Beidou”, 2012; Lague, 2013). Only SOEs and their affiliates have
access to the manufacturing rights for ICs embedded with BDS signal decoders, as the IC algorithm is sensitive information (Beidou Satellite, 2014). NFMC is one of the companies that have been awarded these IC production rights (Lague, 2013).

This collaboration resulted in talented workforce that subsequently expanded the local client base to include global players. NFMC’s board members from Fujitsu referred international clients after transforming the obsolete electronic component manufacturer into a state-of-the-art IC assembling and testing provider. Fujitsu was the pilot customer that purchased the finished product from the new JV to demonstrate the trustworthiness of production (NFMC Annual Report). Because the NFMC brand was less recognised, Fujitsu allowed its brand to be used for all products manufactured by NFMC with a charge of 0.1% of revenue (NFMC Annual Report, 2010). In 2009, Toshiba Japan Limited signed an alliance agreement with NFMC to share the production capacity necessary to fulfil the stringent and ad hoc demand from their own global clients (NFMC Annual Report, 2009). By 2013, more than half of the top ten semiconductor manufacturers in the world including Toshiba, Siemens, Motorola, Canon and Texas Instruments were NFMC active customers. In 2013, 60% of NFMC’s sales were generated from overseas markets, compared with none generated from overseas before the JV establishment in 1997, before the BOD members with international experience were introduced. The stable talent pool has helped ensure the continuity of sustainable business growth. Local talent is willing to work at NFMC because its SOE nature supports their career advancement within the state system. According to a human resources survey conducted by Hays Consultant Ltd for China in 2013, the staff turnover rate in China is around 30%. However, there was no senior management turnover from 2007 to 2012, as reported by the respective annual reports.
With the diverse international experience in BOD, a more effective corporate governance was established that also led to preferential financial support. The original board members before Fujitsu’s participation had all been appointed by the state, and a direct result of such ownership concentration was the lack of impartiality among board directors’ monitoring responsibilities – an imbalance that often leads to insider trading, the advantage of a few comes at the cost of the many (Kang, Shi, & Brown, 2008). Corporate governance was introduced by Fujitsu’s appointed directors, and strengthened the transparency through the disclosure of the latest company development and the establishment of a corporate strategy committee, an audit committee, a senior management nomination committee and an employee remuneration committee (NFMC Annual Reports). The government tends to offer a range of tax breaks and subsidies to state firms (and the affiliates) with proper corporate governance and favours them in procurement contracts (McGregor, 2012). For instance, in high technology industries, the Chinese government has been providing billions of dollars since 1986 (named the ‘863 Programme’) to fund its development and reduce dependence on foreign countries. The programme’s budget is more than USD4 billion from 2006 – 2020 (Osnos, 2009; Lague, 2013). NFMC is among the few home-grown players entitled due to its state-owned nature to receive subsidies of USD7 million, USD7 million, USD4 million, USD2 million and USD3 million in 2010, 2011, 2012, 2013 and 2014, respectively. These grants are treated as income for NFMC that contributes to its profit. The combination of the ability to attract the best talent, better governance and consequentially winning government grants has led to a positive model for JVs in China.
Chongqing Water Group

Chongqing Water Group (CWG) is another successful Sino-foreign JV established in 2007 with two major shareholders – Chongqing Water Resources Group (CWRG, an SOE) and Suez Group from France. CWG engages in the investment, construction and management of urban water supplies and drainage projects in Chongqing, China’s largest municipality housing 29 million inhabitants. CWG was listed on the Shanghai Stock Exchange in 2010. Under the JV contract, Suez agreed to bring the human capital including corporate governance policy, technical know-how, strategic suppliers and capital while CWRG provided the relational capital including access to government financing and industry talent. CWG was then transformed from an underperforming entity with no TLT internationalisation into a Sino-foreign JV with some board members possessing international experience. Its TMT, however, remained unchanged. The introduction of two board members from Suez with international work experience (gained in France, the UK and Canada) improved CWG’s performance, which was also strengthened through SOE involvement, as reflected in the following three aspects of this example.

The first notable benefit is an expanded business scope supported by a stable workforce. CWRG had limited capability to serve its municipality or the nearby provinces. With Suez’s support, CWG is equipped to develop the water infrastructure consultancy by offering customised water treatment solutions, leakage prevention and identification, wastewater treatment and management consultancy. The know-how that Suez introduced includes pipeline leakage detection technology to rectify water loss when supplying water from the treatment plant to the end-users. China’s pipeline leakage rate is 20% compared to that of France, which is below 10%. The service
region has also been expanded to include neighbouring provinces and, ultimately, the entire nation (CWG Annual Report, 2011).

Local talent is willing to work at CWG because its SOE nature supports career advancement within the state system. CWRG’s SOE background also helps attract and retain local staff members to fulfil the business expansion needs. This is an important advantage enjoyed by SOEs in China. In contrast, according to the 2013-14 China Business Report (Amcham, 2013), human resources is the second largest business challenge after rising cost for foreign companies operating in China. The stable talent pool from an SOE partner helps ensure the continuity needed for sustainable business growth. According to a human resources survey conducted by Hays Consultant Ltd for China in 2013, the staff turnover rate in China was around 30%. However, CWG had a less than 15% turnover rate for senior management from 2010 to 2012, as reported in the respective annual reports.

The second benefit of SOE involvement is the resultant restructuring, which presents the opportunity to receive preferential financial support. As CWRG was 100% state owned, its operational efficiency was relatively low due to excess staff. Staff retrenchment was not able to implement due to the communistic original structure, even after equipment upgrades, as staff members were under lifetime employment. The introduction of new board members brought in bench-mark comparisons that focused on the industry’s international operational standards. The organisational restructure occurred under the new ownership and the specific guidelines set by the new board members.
As a more efficient company, CWG is among the few utility companies entitled to financial support due to its state-owned nature. It received subsidies of USD16 million, USD22 million, USD21 million and USD21 million in 2009, 2010, 2011 and 2012, respectively (CWG Annual Reports). These grants were treated as income for CWG that contributed to its profit. Thanks to state backing, commercial banks lend to SOEs at a third of the cost of credit available to non-SOEs. Sometimes non-SOEs cannot get a bank loan at all, or are treated as a lower priority (McGregor, 2012).

The final benefits of SOE involvement are the exclusive concession arrangement and market access rights. Before the CWG JV was formed, the Chongqing government had granted the concessions of water supply and treatment to CWRG and another SOE – Chongqing Water Investment Limited (CWI). The purpose was to introduce competition between the two SOEs (CWRG and CWI) and to compare their efficiency as to maximise productivity within the state system. With the entry of Suez and its improved performance, the state agreed to have CWRG acquiring CWI in 2011 that eliminated competition ensuing protection of the foreign interest. Thus, CWG enjoys the exclusive water concessions in the regions it serves (CWG Annual Report, 2011). After market consolidation, CWG was granted the rights to conduct water supply and treatment business in Chongqing and the western provinces, including additional procurement and services contracts from other local SOEs. In addition, Chinese industrial standards, which are not in line with international norms, were mostly drafted by SOEs without consulting foreign firms (McGregor, 2012). Such settings confer the advantage to domestic firms, as those standards are tied to the
right to sell products or services. CWG is therefore able to reach the market with involvement of the SOE together with renowned technologies and practices.

In comparing the aforementioned failed and successful examples, the commonality of improved performance appears to be that successful Sino-foreign JVs performed better following the transformation of the respective BOD into a body with greater diversity in international work experience without apparent changes in BOD nationality or TMT internationalisation. In the successful cases, the diversified BOD brings in effective corporate governance and know-how to create and develop new market segments. Furthermore, the respective SOE partners add value to the performance matrix by providing strong finance support and access to markets and resources. The successful cases show that SOEs enhance the respective JV performance by providing a stable talent pool, securing local selling rights and lending preferential financial support.

Managerial Implications

The illustrative Sino-foreign JV examples and prior research (see Paper 1) shed light on the challenges faced by foreign investors when specifying BOD and TMT members and choosing a particular type of local partner for a new JV with respect to their internationalisation. The key implications are:

- The need to achieve sufficient diversity in international work experience within the BOD as a key characteristic of a good Sino-foreign JV;
• The inability to substitute the BOD’s international experience diversity with the nationality diversity of the BOD or TMT, or with the international experience diversity within the TMT;

• The need to involve an SOE as the local partner in the JV to amplify the positive effect that BOD diversity has on JV performance, subject to also maintaining the first condition, which requires the ability to nominate members to the BOD.

The following section elaborates on the managerial implications.

_TMT Diversity and Firm Performance_

Prior research on Sino-foreign JVs has not established a relationship between TMT diversity and firm performance. This is an important finding given the results of other, more general studies implying that TMT diversity affects firm performance, even though such studies are inconclusive about whether such effects are positive or negative. One explanation is that Chinese firms still do not have the necessary systems to effectively harness the benefits of higher TMT heterogeneity (Wei et al., 2005), as the BOD has greater authority over the TMT. The benefits ensuing from different perspectives may not materialise because Chinese culture emphasises harmony amongst team members rather than voicing opposing views, especially towards those with higher seniority and greater authority. Hence, the advantage of TMT heterogeneity, which is its ability to broaden the firm’s strategic perspectives through the development of more effective strategies, may not emerge.

Some important managerial implications arise here. First, foreign investors should treat the TMT and the BOD as separate entities when negotiating the formation of a new JV. They should not be overly concerned with improving TMT
internationalisation diversity (neither in terms of nationality nor international work experience), and should instead divert the negotiation focus to other key terms such as the nomination of board members. Second, TMT nomination can be used as a bargaining chip for BOD nomination or other more crucial terms. Article 26 of the Chinese Sino-foreign law states that if a Chinese or foreign party serves as chairman of the board, the other party shall serve as vice chairman (Dong, 2005) and nominate the JV’s general manager. The foreign investor will then be able to place higher priority on other terms by not pushing TMT internationalisation. Third, the remuneration of existing or newly recruited TMT members is normally based on past experience (including overseas experience), thus their nationality and familiarities are perhaps not as important as might be inferred from extant literature.

**BOD Diversity and Firm Performance**

Prior research on BOD (and TLT, more generally) has stressed the need to distinguish between the two elements of internationalisation: nationality and international work experience. We concur and stress that it is the diversity of the BOD members’ international experience that has a profound and favourable effect on firm performance in the Chinese JV context. JVs with more diverse international board members tend to have better financial performance. Masulis, Wang and Xie (2009) argue that board members are critical to a firm’s success, as their two major functions are the monitoring of and advisory role concerning strategic decisions. Firms can benefit from the international perspective and expertise of these directors who can leverage their international experience and expert knowledge to enhance the advisory function of the boards they occupy, and improve existing or future international operations.
A BOD with diverse overseas work experience is also likely to increase pressure on the JV management to provide transparent performance and earnings information. According to Cho and Rui (2007), directors with international work experience are more likely to demand stringent management oversight, as they can facilitate the adoption of superior management practices that can enhance firm performance and productivity (Giannetti et al., 2013). A BOD with greater international experience can thus help bridge the large productivity gaps that persist across countries and firms (Jones & Romer, 2009). These members transmit knowledge on resources, management practices and corporate governance to firms in emerging markets. Board members with international experience are able to access more sources of external financing as they are more likely to engage foreign investors to raise funds through private placement. The improved corporate governance set by the board can decrease the propensity for TMTs to manage earnings while their pay-performance sensitivity increases. Masulis et al. (2009) also find that companies in emerging markets can benefit from appointing directors with experience in countries with stronger investor protection as a way of improving board monitoring and overall corporate governance. These members can use their international experience to enhance boards’ advisory function and benefit firms with existing or future overseas operations.

These managerial implications of the above mentioned role of BODs are palpable. First, the selection criteria of board members should focus on overseas work experience but not necessarily nationality. The foreign investor will therefore likely have a larger pool of potential candidates as Chinese nationals with international work experience should be included. Second, MNCs that plan to establish a JV with an SOE
but can only have a minor stake should focus on BOD nomination rather than TMT appointments, because while foreign investors can normally express their views, the SOE partner will try to make the decision (Huang & Orr, 2007). SOEs value the views of foreign partners more highly due to the MNCs’ international experience with investment and operation decisions. Board members with international experience are able to gain greater influence due to the introduction of international benchmarks on capital intensity and influence the timing of investments (Huang & Orr, 2007). Third, the best time to place a suitable director with international work experience is during the negotiation stage when a JV is being formed, as the foreign investor has maximum influence that they should not forgo. When the foreign investor has a strategic presence in the BOD instead of the TMT, they can endeavour to encourage challenging debate before and during board meetings. Given the greater experience (which is also what local partners prefer) of foreign partners in marketing, management and innovation, foreign partners have a powerful rationale for asserting an influential role in the JV.

JVs can also benefit from recruiting local talent to serve as BOD members with international work experience while maintaining Chinese nationality as a cost effective measure. In addition, MNCs may have a limited talent pool from which they can only afford to dispatch and executives from developed countries are often not eager to assume roles in emerging countries. A manpower report in 2011 suggested that in the UK, the US, Germany and France, the proportion of staff ready to relocate for a job has declined substantially mainly because they prefer to stay close to home in uncertain times (Manpower Group, 2011). The engagement of local talent in
Sino-foreign JVs would help solve this struggle while securing the firm performance, as international experience and not nationality is given priority in recruitment.

**State Ownership Effect on BOD Diversity and Performance**

Prior research has shown that the link between BOD international experience diversity and firm performance is amplified if an SOE is chosen as the local partner. An SOE partner (compared with a non-SOE) can spur the JV’s market expansion, enhance its market power and reduce contextual or transactional risks. The choice of working with an SOE or a non-SOE can be examined based on the implications for resources and governance. On the resources side, although SOEs may have problems related to inefficiency, they usually have access to financing, resources and substantial governmental support (Ju & Zhao, 2009). On the governance side, the SOE shareholder is still dominant within JVs in China. Empirical evidence suggests that ownership structure affects a board’s incentive to monitor and control management (Cho & Rui, 2007; Tirole, 2001), and that large shareholders are more effective in monitoring firm management (Franks & Mayer, 2001; Kang & Shivdasani, 1995). Between 2010 and 2012, 106 non-SOE Chinese companies (around 1 in 5) were delisted (Cogman, 2012). The widespread delisting of Chinese non-SOEs has also led to questions about their credibility. Therefore, SOEs as local partners increase the foreign partner’s potential gains and offer incentives for closer monitoring and management control.

Given the governance and resource implications related to SOEs, there are several managerial implications to be drawn. First, the foreign investor should choose an SOE as its JV partner instead of a non-SOE when both types are available within
the industry, as doing so increases the likelihood that the JV will be profitable. Although the share of national economic output by SOEs is lower than two decades ago (with the total SOE number declining and share of employment diminishing), SOEs still contribute about half of all economic output (McGregor, 2012). In some industries such as telecommunication, petroleum and electricity generation, all enterprises are SOEs and foreign investors do not have a choice; however, in other industries, a choice is usually available.

Second, if a suitable SOE cannot be identified, foreign investors should choose a local partner that is privatised, but where the state remains an influential shareholder. These privatised firms are frequently spin-offs from SOEs, following China’s implementation of the policy of separating government functions from business operations. Well-known firms of this type include the computer maker Lenovo and appliance giant Haier (Woetzel, 2008). Although officials have started holding these privatised firms more accountable, government favouritism toward these firms is still prevalent.

Third, foreign investors can select SOEs with staff members who have broader international work experience as the local partner, thus benefiting from a board with international experience and ownership. BOD international experience diversity can be provided by foreign or local parties to bring in a more strategic and global mind-set. The number of Chinese staff with international work experience is growing as Chinese firms become more international. Chinese FDI outflow has exhibited a compound annual growth rate of more than 10% since 2002 with USD62.4 billion in 2012 (OECD, 2013). Chinese employees with international work experience can form a stronger talent pool for both Chinese and foreign firms (Giannetti et al., 2013).
Finally, foreign firms entering a JV with an SOE can better attract, retain and develop scarce talent to create a strong team for sustainable business growth. Foreign companies used to be regarded as ‘golden brands’ for Chinese talent – highly desirable places to work. However, this began to change after the 2008 financial crisis, when many foreign companies reduced staff and some even closed down their Chinese operations. Consequently, foreign companies have lost their allure for local staff members (Dewhurst, Pettigrew, & Srinivasan, 2012). According to a 2013 business report from the American Chamber of Shanghai (based on a survey of 400 American firms in China), human resources constraints are the second top business challenge after rising cost. With so many firms competing for the best local candidates, capable staff members can be selective, and tend to prefer SOEs that offer good prospects for career progression. A McKinsey survey in 2011 found that senior managers working for the Chinese divisions of MNCs switched companies at a rate of 40% per year – five times higher than the global average. Top local personnel prefer working for local firms, especially in SOEs where they can assume senior roles. Thus, the implication of JV partner choice is clear. An SOE partner may bring talent that is usefully embedded in local networks and better talent overall, providing a recruitment advantage in what has become a hugely competitive space when doing business in China.
Conclusion

Based on the findings of earlier research, this paper resolves some ambiguity concerning how to establish (and negotiate) Sino-foreign JVs that can succeed. The effects of TMT diversity on firm performance have long been a major issue in the international business literature, yet less attention has been placed on the BOD. The framework put forward in this paper accounts explicitly for the context of Sino-foreign JVs and captures the relationship between the TLT and firm performance based on internationalisation diversity (international work experience and nationality). This paper provides a modest step towards providing a more complete understanding of how to better establish successful JVs in China, and it attempts to articulate managerial implications for foreign investors to consider when negotiating a JV. The implications for managers involved in the formation of Sino-foreign JVs are primarily that they should treat the BOD and the TMT as separate entities rather than as one TLT when negotiation nominations to the two entities; that they should distinguish between international work experience and nationality when creating the right diversity in terms of internationalisation within the TLT; that they should negotiate for sufficient international work experience diversity within the BOD that bolsters the JV’s strategic decisions and performance; that they should not assume the BOD nationality diversity or TMT internationalisation diversity can serve as a substitute for BOD international work experience diversity; and that they should select an SOE as the local partner to gain preferential access to resources.

There is little doubt that MNCs can benefit from engaging in Sino-foreign JVs. However, if foreign investors do not negotiate effectively with the right potential local partners emphasising crucial BOD characteristics, the negotiation process can be
lengthy and might force local partners to call off the deal, or result in a JV that is likely to fail. These findings act as a practical reference guide for MNCs who are investing in emerging markets with similar socio-political characteristics as those of China, and they illuminate the Chinese context.
OVERALL CONCLUSION TO THE DISSERTATION

This dissertation contains two related papers: one that has a more scholarly focus and one with a more managerial emphasis. In drawing on the upper echelons theory and data from 137 Sino-foreign JVs, it provides some new insights concerning the inconsistent findings that have been reported in prior studies that examined the relationship between the TLT and performance. This study finds that both the TMT and the BOD should be subjected to a simultaneous but distinct investigation: there is a positive and significant relationship between the diversity of a BOD’s international experience and firm performance, but this is not the case with respect to TMT diversity. The results suggest that a combined measure alone would fail to capture the advantage bestowed by a diverse BOD. In addition, the study presents a strong rationale to consider the effects associated with an emerging economy context, as Chinese culture dictates respect for authority and seniority, which may amplify the potential influence of a higher level decision-making hierarchy with particular focus on the BOD. The findings in this study also support the maintenance of the distinction between observable (nationality) and non-observable (international experience) demographic attributes. It is only the international experience of the BOD that is positively related to Sino-foreign JV performance, not nationality. Compared to nationality, international experience is non-observable as the latter requires knowledge through interactions and is less vulnerable to negative effects. According to resource dependence theory, the BOD’s international experience offers resources to the firm that are not easily substituted by other alternatives. Although China is in the process of privatizing SOEs, the state still retains significant shareholdings in many listed companies. However, the effects of ownership type through the lens of upper echelons theory are seldom studied.
This study finds that the Chinese SOE ownership type strengthens the relationship between BOD international experience and firm performance.

Based on the above findings, this study provides a modest step towards a more complete understanding about what matters when establishing a Sino-foreign JV in China; especially in the negotiation stage for JV formation. The implications for foreign investors include treating the BOD and the TMT separately in the context of the TLT rather than putting them as one when nominating the senior members for the JV. They should also distinguish between international working experience and nationality when creating the right diversity in terms of internationalization within the TLT. The priority for TLT internationalization diversity should be experience but not nationality within the BOD so that strategic decision making and performance of the JV can be bolstered. In addition, they should select a SOE as the local partner because of the preferential access to resources.

Future research may expand the study of international JVs in emerging markets other than China that may share the common institutional characteristic. In addition future research within China is warranted. The state-ownership type in China is a multi-dimensional phenomenon that can be further distinguished examining, for example, central, provincial, and local government ownerships. These types of state ownership can lead to different governance mechanisms and forms of access to resources. In the search of an ideal Sino-foreign JV structure, a pertinent concluding remark is the statement made by the Chinese top figure and the General Secretary of the State, Mr Xi Jinping during a recent meeting with US President Barack Obama: “There is no best, but better.”
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Appendix 1 – Assessment of Possibility of Endogeneity

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<th>Sig.</th>
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<th>Sig.</th>
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Remarks
X = independent variable; Y = dependent variable
Control variables: Industry, Log FirmSize, TotalTMT and FirmAge
NatM= nationality diversity of management team
ExpM= international experience diversity of management team
NatD= nationality diversity of board of directors
ExpD= international experience diversity of board of directors
SOE= ownership type; Moderator, 1 = SOE and 2 = nonSOE
NatCom= nationality diversity of management team + board of directors
ExpCom= international experience diversity of management team + board of directors

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## Appendix 2 – Location of JV Establishment and Diversity Calculation

### Location Count of JV Establishment

<table>
<thead>
<tr>
<th>Item</th>
<th>Co. Registration location</th>
<th>Location Type</th>
<th>Count</th>
<th>Percentage</th>
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*A total of 167 JVs. After excluding 41 registered with the Ministry of Commerce under the central government, there are 126 JVs established in 23 different regions.

### Blau’s Index Calculation

(Excluding registration with central gov’t)

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