

# Financial Performance Comparison between International Joint Ventures and Wholly Foreign-Owned Enterprises in China

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International joint ventures (IJVs) and wholly foreign-owned enterprises (WFOEs) are the two major competing modes of Chinese market entry for foreign investors. However, the financial performance of and relative financial efficacy between the two modes have not been researched. The present study utilizes firm-specific financial data and examines financial ratios and characteristics of IJVs and WFOEs in the current Chinese financial environment. Results of this study reveal that the WFOE is superior to the IJV in terms of asset efficiency, financial risk aversion, and export growth whereas the IJV outperforms the WFOE with respect to local market growth and environment adaptation. © 1995 John Wiley & Sons, Inc.

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## INTRODUCTION

As the world's largest developing country and fastest growing economy, China continues to attract a great amount of foreign direct investment (FDI). It does so predominantly through the establishment of international equity joint ventures (IJVs) and wholly foreign-owned enterprises (WFOEs). As a very special economic, cultural, and political context in the world, China is also an unfamiliar territory in which the rules of the game are likely to be dissimilar to those of market economies. Admittedly, many foreign ventures operating in China encounter certain difficulties and complications in accomplishing their anticipated operational and financial objectives. Although 15 years have passed since China officially opened its door to foreign investment, there is not a large body of research in the existing literature relating to the financial characteristics of IJVs and WFOEs. Moreover, prior studies have not systematically examined the relative financial efficacy of the IJV versus the WFOE, the two major competing modes of Chinese market entry. This study, therefore, is designed to compare the financial performance and characteristics between IJVs and WFOEs operating in China.

The present investigation concerning the financial characteristics of Sino-foreign IJVs and WFOEs and relative financial efficacy between the two, is of immense practical significance to foreign investors entering the Chinese market. For both foreign and local investors, the mode of involvement creates certain unique and long-term resource commitments. Because of the fixed nature of these investments and contractual bindings, some of these commitments are nearly irreversible, at least in the short run. Ownership policy also has implications for investing firms in terms of control relations with foreign subsidiaries, rationalization and integration of the production network, and standardization and coordination of functional policies on a regional and worldwide basis (Davidson, 1982; Kobrin, 1991). The knowledge of relative financial efficacy and financial characteristics will help investors select their optimum ownership mode, formulate appropriate investment strategies (e.g., sharing arrangement, diversification strategy, investment size, and timing of investment), and work out proper financial strategies (e.g., financing, budgeting, transfer pricing, and dividend policy).

## CONCEPTUAL REVIEW

In recent years, multinational corporations (MNCs) have increasingly used IJV as a vehicle for FDI. A number of authors have attempted to explain the interfirm coalitions such as IJVs by proceeding inductively

from a theoretical perspective (Harrigan, 1985); transaction cost (Hennart, 1988); internalization (Buckley and Casson, 1988); and organizational learning (Hamel, 1991; Kogut, 1988).

Much of the earlier research seems to have been devoted to developing insights and hypotheses regarding two basic questions: why interfirm arrangements are chosen in preference to other alternative modes; and under what conditions the choice of an interfirm equity arrangement is an optimal one, relative either to a contractual mode (e.g., licensing), an internal or nonmarket mode (e.g., WFOE), or both. This branch of the literature maintains that an IJV can enhance economic rents to the partner (Beamish and Banks, 1987). These economic rents can be the result of risk reduction, economies of scale and scope, production rationalization, convergence of technologies, and better local acceptance (Harrigan, 1985). The literature also predicts that IJVs can be more efficient than WFOEs in some circumstances, but less so in others. As Buckley and Casson (1988) pointed out, the key to answering whether or not the IJV is better than the WFOE lies in the economic indivisibility between foreign and indigenous firms. This indivisibility can be essentially an economy of scale, an economy of scope, or a technical complementarity (Buckley and Casson, 1988).

When a foreign firm enters a country in which the cultural, political, and economic systems differ greatly from its own (e.g., P.R. China), it is more likely to cooperate with an indigenous firm that has developed unique country-, industry-, or firm-specific skills and advantages. These types of skills would be very costly, if not impossible, to duplicate by the foreign firm (Davidson and McFetridge, 1985). In less developed and transitional nonmarket-driven economies, in which requirements for adaptation and information are greater due to market structure imperfections (Dunning and Rugman, 1985), cultural changes (Beamish and Lane, 1990), idiosyncratic investment laws (Robinson, 1987a), and different economic stages (Robinson, 1987b), the appropriateness of a multinational enterprise forming IJVs is reinforced (Beamish and Banks, 1987).

In other respects, however, IJVs face more difficulties in the process of operation and management than in other modes. IJV performance depends greatly upon qualitative variables such as individual personalities, organizational cultures, administrative styles, and management philosophies. Moreover, an IJV is neither an external, market-based method of organizing economic activity nor a traditional intrafirm structure. Instead, it is a hybrid that does not comply with the rules of either pure form of business administration. Furthermore, the IJV mode brings greater potential for opportunistic behavior and the parent faces higher costs in controlling IJV operations compared to a WFOE.

Relative to the parent of an IJV, the counterpart of a WFOE can control a subsidiary's operations and management at a lower cost and/or in a more effective way because the parent can avoid conflicting motives and reduce opportunism under full ownership. Moreover, the parent of a WFOE maintains a greater bargaining power over the host government and less vulnerability to the local environment because with a WFOE, foreign investors can rely more heavily on the globally integrated network and benefit more from the internalization within the network. Judging from the financial efficacy perspective, the WFOE is likely to outperform the IJV with respect to financial risk aversion, liquidity control, asset management, and export growth. The present study will examine this proposition based on the Chinese context.

Earlier studies in this area have provided inconclusive and controversial evidence. Janger (1980) found that a large majority of US-based MNCs have expressed highly favorable opinions about the profitability of IJVs relative to WFOEs. Dang (1977), relying on a sample of US-based MNCs in the Philippines and Taiwan, found that WFOEs did not significantly differ from IJVs in terms of profitability and growth opportunities. Otterbeck's studies (1981), based on a group of Swedish MNCs, found that IJVs are significantly more leveraged than WFOEs, and IJVs show lower remittances than WFOEs in terms of royalty payments, license fees, and management fees. Gomes-Casseres (1987), based on the data base of the Harvard Multinational Enterprise Project, found that financial risk is higher for IJVs than for WFOEs.

In sum, the analysis of financial efficacy between IJV and WFOE is a context-specific empirical question. More specifically, the financial superiority of one mode over another depends on: the strategic rule of the venture and hence the measurement of multidimensional venture performance; the host investment environment in which production costs, sales revenue, taxation, financing, and liquidity that affect the venture performance are anchored. After reviewing the Chinese financial environment, this study will compare the financial efficacy between IJVs and WFOEs by employing multiple measurements of financial performance.

## **CHINA'S FINANCIAL ENVIRONMENT FOR IJVS AND WFOES**

The purpose of this section is to briefly introduce China's financial environment for foreign invested ventures, even though the Chinese government has not differentiated IJVs from WFOEs as far as financial policies and regulations are concerned. The major components of

this environment include the relevant policies regarding costs, revenues, taxation, and financing pertinent to foreign ventures.

## Cost Related Issues

One of China's attractions for FDI is undoubtedly its position as a low labor cost manufacturing site. Indeed, many manufacturing ventures, particularly in light industry (e.g., textiles, toys, consumer goods), seek to take advantage of the enormous Chinese labor pool.

The wage structure of venture employees typically consists of a basic salary, a bonus based on performance, and benefit payments for various purposes, including housing, transportation, and insurance. Previously, it was mandated by law (*Law 1, 1986*) that the basic wages paid by a foreign venture be at least 20 percent higher and at most 50 percent higher than the wages paid for similar work in state-owned enterprises. This regulation has been recently amended to eliminate the ceiling: employers are now free to set wages as high as deemed necessary to motivate and retain workers. As for management compensation, the high cost of employing expatriates has been a source of dissatisfaction among Chinese partners in IJVs. To reduce foreign exchange expenditures, some ventures have reduced the number of their expatriate employees.

Imported materials, parts, and components greatly increase production costs. Most ventures must import some percentage of the inputs used in production because they are either unavailable in China or cannot be found at the required quality levels and specifications. In general, the more advanced the product or technology, the higher the venture's import content will be. The high import content not only drives up production costs, but also, and perhaps more importantly, creates foreign exchange difficulties for the venture. The foreign exchange needs must be met with foreign exchange sales that cannot be secured unless a certain level of competitiveness in international markets is achieved. This, in turn, depends to a large extent on costs of production. Conceivably, foreign ventures could lower these costs by raising the local content of their products. However, low quality and incompatible specifications have long hobbled efforts in that direction. Chinese suppliers are indeed often unaccustomed and unable to produce parts and components to foreign venture's quality levels and specifications, forcing these enterprises to resort to importing inputs. Moreover, even those few suppliers who could produce to required quality levels and specifications, may be unwilling to accept the expense and effort required, given the small volumes purchased by foreign ventures.

## Revenue Related Issues

According to the law (*Law 2, 1983*) regulating foreign investment activity, these ventures are required to sell at least 30 percent of their output on the international market. In practice, however, this rule has not been strictly enforced.

Foreign ventures selling on the domestic market for Chinese yuan do not face the marketing difficulties encountered by those ventures that offer their products against foreign exchange, either domestically or internationally. On the international market, ventures can either export directly to end users or export to other divisions of the foreign partner for use in other production facilities or for resale. In the domestic market, foreign invested enterprises engaging in foreign exchange sales target other ventures and Chinese organizations with foreign exchange. Their products compete with imported goods and attempt to replace them.

An increasing number of foreign invested firms are presently trying to sell domestically for a mixed Chinese yuan-foreign exchange price, with the foreign exchange portion covering as much of the costs of the product's imported inputs as possible. Such a price structure is also attractive to Chinese buyers. It does indeed offer them the prospect of foreign exchange savings to the extent that domestically purchased goods replace imports. Thus, the venture is in a better position to compete with foreign manufacturers who require a full foreign exchange payment.

The pricing of venture products is regulated by the provisions of the *Joint Venture Law*. According to its guidelines, ventures can freely set the price of their exports, except those controlled by Chinese foreign trade corporations. As for products sold on the domestic market, their prices depend upon their classification into one of the categories determined by law. These include fixed pricing, managed pricing, and free pricing. In practice, foreign invested firms do not produce the type of goods that are rigorously controlled by the host government. Indeed, it is highly unlikely that the authorities will be forthcoming in granting the necessary approvals for a production project of this nature. In addition, as the Chinese economy moves further away from state-controlled procedures, the number of regulated goods based on fixed and managed pricing rules continue to dwindle. As a result, the great majority of ventures have been free to set their own prices for domestic as well as export sales.

## Taxation

A corporate income tax is assessed on the net profits of foreign invested enterprises. For IJVs, the standard national rate is 30 percent

(payable to the central authorities) to which a local surcharge of 3 percent must be added. As for WFOEs, they are liable for a tax of 20 to 40 percent of profits as well as an additional local levy that is fixed at 10 percent of the national income tax rate.

There are a wide variety of partial or total exemptions based on the *type of project* and the *location of the firm*. For ventures whose exports exceed 70 percent of their total output or bring in advanced technology or are located in the open economic zones, the income tax rate reduces from 30 to 15 percent. For foreign ventures with a contract for more than 10 years, there is no tax for the first two profit-making years, and a 50 percent reduction of income tax for the following 3 years. Foreign ventures that reinvest their profits in China over 5 consecutive years will have a refund of up to 40 percent of the tax payment for reinvestment.

Previously, foreign business units had to pay a turnover tax ranging from 1.5 to 66 percent depending on their products. The new turnover tax, effective on January 1, 1994, applies to both foreign and domestic firms and consists mainly of a value-added tax (VAT), with the standard VAT rate fixed at 17 percent. The VAT paid is refundable if the final goods are exported to foreign markets.

## **Liquidity and Financing Issues**

A sizable number of foreign ventures, particularly IJVs, have experienced working capital shortages, not only in foreign exchange but also in Chinese yuan. Three major factors may help explain this situation:

1. Many investors, both foreign and local, do not make cash contributions to the full extent of their commitments—out of opportunism or in an attempt to reduce risk. Indeed, they often rely on loans for capitalization.
2. The expansion of operations and production capacity needed to meet the increasing demand drains available financial resources and contributes to the venture's liquidity problems.
3. Chinese authorities, mindful of inflation risks, have resorted to a tighter monetary policy after each 2- or 3-year period of rapid expansion. The bank's credit squeeze is reflected in the delays experienced by a number of ventures in receiving both foreign exchange and Chinese yuan under existing loan agreements. In these situations, priority in new loans is given to ventures that produce exports or bring in advanced technology.

Foreign ventures facing working capital shortages may explore the following possibilities: Currency trading in foreign exchange

swap centers, where foreign currencies can be bought against Chinese yuan or vice-versa; short- and long-term loans from various resources; increase in equity contributions, or increase in retained earnings; and some IJVs may obtain financing by issuing corporate bonds or stocks, currently subject to the approval and supervision of the Chinese authorities.

The financial reforms undertaken by Chinese authorities entered a new phase on January 1, 1994, with the unification of the official and swap exchange rates. This single rate has greatly simplified JV financial dealings, allowing them, in particular, to use it in their investment decisions and for profit repatriation purposes.

The above introduction provides general knowledge about China's financial environment. Understanding this environment is a prerequisite for systematic comparison of the financial efficacy between IJV and WFOE. The methodological issues of the comparison will be discussed next.

## DATA SOURCES AND METHODOLOGY

### Data and Sampling

A difficulty in conducting research on business in China is the scarcity of reliable data. Only in recent years has China begun to make data on foreign investment activities available. However, current state data bases of foreign investment reflect only some aggregate figures about FDI activities. Firm-specific financial data is available only from the local authorities, such as the Commission of Foreign Economic Relations and Trade, the Foreign Exchange Administration, and taxation bureaus.

The cross-sectional sample from 1989 through 1991 for this study was obtained from the Foreign Investment Administration Division, Jiangsu Provincial Commission of Foreign Economic Relations and Trade in which one of the authors worked as a division chief at the time. The attainment of financial statements for IJVs and WFOEs from the same office reduces problems in comparative financial analyses. This increases the reliability of the research findings.

Jiangsu is now second in gross domestic product (GDP) generation and foreign investment absorption in China. The policies, measures, and treatment pertaining to IJVs employed by this province are widely emulated by the rest of the country.

Specifically, the data sources used here consist of 54 randomly selected IJVs and 54 WFOEs. In each case, the external financial statements that each enterprise is required to submit to the above



commission, analyzed. The primary statements surveyed were balance sheet and income statements. By government requirement, these statements are officially audited by independent certified public accountants before they are submitted. The general accounting principles and standards governing Chinese IJVs and WFOEs are identical, and quite similar to the general accepted accounting principles (GAAP) of the United States.

The time frame of this study (1989 through 1991) is appropriate as this horizon was an overall operating rather than start-up phase nationwide for foreign investment. Government policies, rules, and regulations concerning FDI were much more exhaustive during this period. Although Chinese business settings are highly dynamic, this time frame adequately represents a picture of JV financial performance in recent years. In addition, firms in the IJV group were matched with the WFOEs by industry: nine in electronics, eight in consumer goods, seven in textiles, six in machinery, five in food processing, three in construction materials, three in agriculture, three in chemicals and medicine, three in engineering, three in services, two in petrochemicals and plastics, and two in transportation.

## Financial Variables and Analysis Approach

The financial performance variables for the period 1989 through 1991 were computed and then averaged as shown in Table 1. To determine whether these financial performance dimensions differed between the two groups of firms, IJVs and WFOEs, a univariate analysis was employed whereby the difference in group means for each of the variables was tested using the unpaired *t*-test statistics.

## RESULTS AND DISCUSSION

Table 2 compares the relevant financial ratios and characteristics of IJVs with those of WFOEs.

### Financial Ratios

**Profitability.** The return on assets before tax (ROAB) for sampling IJVs and WFOEs is 20.7 and 18 percent, respectively. The return on assets after tax (ROAA) for these IJVs and WFOEs is 14.2 and 13.5 percent, respectively. Although the return on assets is higher for the IJVs than for the WFOEs, the difference is not statistically significant. Nevertheless, profit margins show significant disparities. The gross margin ratio (GPM) is lower for WFOEs (69.10%) than for IJVs

Table 1. Definition of Variables Used

Variables	Calculations
<b>Profitability</b>	
ROAB	Earnings before taxes/total assets
ROAA	Net income/total assets
GPM	Gross profit/sales
OPM	Operating profit/sales
<b>Efficiency</b>	
ATO	Sales/domestic accounts receivable
ITO	Costs of goods sold/inventory
TATO	Sales/total assets
<b>Liquidity and Financial Risk</b>	
CRO	Current assets/current liabilities
LIQ	Cash/total assets
DEBT	Total debt/total assets
INT	Earnings before interest and taxes/interest
<b>Growth Opportunities</b>	
SAGR	3-Year compound growth rate of sales
EXGR	3-Year compound growth rate of export
NPGR	3-Year compound growth rate of net profit
<b>Business Determinants</b>	
ADVT	Advertising expenditures/sales
R&D	R&D expenditure/sales
SFMK	Sales force marketing expenses/sales
CREDIT	Forward domestic accounts receivables/sales
SIZE	Total assets

See text for acronyms.

(71.30%). However, when all other expenses beyond costs of goods sold are taken into account, WFOEs are more profitable than IJVs. As shown in Table 2, the operating profit margin (OPM) for WFOEs is 25.20 percent, which is significantly higher than the margin for IJVs (22.60%). This suggests that the WFOEs, on average, have higher costs of goods sold in relation to total revenue than IJVs, and that they may have lower operating and administration expenses than IJVs. The latter may be caused by lower interest expense (because of a lower level of financing), lower depreciation (because of smaller fixed asset size), or lower administration expenditures (because of high managerial control). In the case of WFOEs there is less allocation of certain social and transportation funds contributed to the local governments because of no involvement by the Chinese partner.

**Efficiency.** The average accounts receivable turnover (ATO) for IJVs and WFOEs is 9.861 and 10.327, respectively. In Table 2 we note that the lower intensity of credit liberalization of WFOEs is a major factor contributing to their higher receivable turnover. Likewise,

**Table 2. Univariate Mean Difference Tests between IJVs and WFOEs ( $N_{IJV} = N_{WFOE} = 54$ )**

Variables	IJV	WFOE	<i>t</i> Statistics
<b>Profitability</b>			
ROAB	0.207	0.180	-1.333
ROAA	0.142	0.135	-1.457
GPM	0.713	0.691	-0.954
OPM	0.226	0.252	2.479 <sup>a</sup>
<b>Efficiency</b>			
ATO	9.861	10.327	0.415
ITO	9.233	9.452	0.124
TATO	1.208	1.385	1.832 <sup>b</sup>
<b>Liquidity and financial risk</b>			
CRO	1.896	2.354	2.673 <sup>a</sup>
LIQ	0.095	0.088	-0.747
DEBT	0.371	0.289	-2.680 <sup>a</sup>
INT	13.242	17.550	1.042
<b>Growth opportunities</b>			
DSGR	0.182	0.169	-0.779
EXGR	0.081	0.153	2.905 <sup>a</sup>
NPGR	0.135	0.124	-0.563
<b>Business determinants</b>			
ADVT	0.014	0.010	-1.155
R&D	0.055	0.077	3.101 <sup>a</sup>
SFMK	0.061	0.053	-2.784 <sup>a</sup>
CREDIT	0.066	0.049	-2.003 <sup>b</sup>
SIZE	\$1.45M	\$1.05M	-1.950 <sup>b</sup>

See text for acronyms.

<sup>a</sup><sup>b</sup>Denote 10% and 1% significance level, respectively.

WFOEs also have a higher level of inventory turnover (ITO) than IJVs, despite the insignificance of the difference. A lower level of average inventory for WFOEs relative to IJVs appears to advance this situation. With regard to total asset turnover (TATO), the ratio for WFOEs is 1.385 and for IJVs is 1.208. The *t* statistics in Table 2 also show the difference between the two ratios to be statistically significant, suggesting WFOEs strongly outperform IJVs in total asset management. This suggests that fixed assets may be more productive in WFOEs than in IJVs, because WFOEs usually are equipped with new and technologically advanced machinery whereas the Chinese partners of IJVs often invest with used fixed assets. In sum, the results of this study suggest that WFOEs are superior to IJVs as far as asset management is concerned.

**Liquidity and Financial Risk.** As a measure of liquidity, the current ratio (CRO) is significantly lower for IJVs (1.896) than for

WFOEs (2.354). Indeed, IJVs usually have a partnership with Chinese state enterprises. This partnership enables the IJV to have a better banking relationship, thereby making it possible for them to maintain a low current ratio without impairing their routine business activities. In the mean time, the debt ratio (in respect to total assets) is significantly higher for IJVs (0.371) than for WFOEs (0.289), which may be explained by the fact that many foreign investors in JVs, particularly from Hong Kong and Taiwan, often remit only a portion of their undertaken equity, and as a result have to rely on bank loans when their own capital is insufficient to meet operational demands. Similarly, Table 2 also indicates that interest coverage (INT) is much higher for WFOEs (17.550) than for IJVs (13.242), suggesting interest expense varies greatly between IJVs and WFOEs. This result is consistent with the result of debt ratio and current ratio. As for cash liquidity (LIQ), although the difference is not statistically significant, IJVs appear to have maintained a higher level of cash relative to total assets.

**Growth Opportunities.** Domestic market growth (DSGR) reveals a higher rate for IJVs (18.20%) than for WFOEs (16.90%) despite an insignificant difference. However, the export growth rate (EXGR) is significantly higher for WFOEs (15.30%) than for IJVs (8.10%), suggesting that those foreign investors pursuing Chinese market entry are more likely to choose the JV mode. Utilization of existing market power and distribution networks possessed by the Chinese counterparts is commonly viewed as the best short-term way to enter into the unfamiliar Chinese market. Foreign investors attempting to minimize production costs by manufacturing on a Chinese site with the intent of exporting to international markets are more likely to employ the wholly owned venture mode. Table 2 suggests that both groups of firms have similar net profit growth rates (NPGR).

## Business Determinants of Financial Performance

This study offers evidence that R&D expenditure (R&D) is less intense for IJVs (0.055) than for WFOEs (0.077). IJVs tend to be more advertising intensive (0.014) relative to WFOEs (0.010), although not at a statistically significant level. The higher R&D intensity of WFOEs may relate to foreign investors who own certain advanced technology or research and development proprietary knowledge or processes that could provide their major core competence or competitive advantage. These investors might be not willing to let their know how be shared by others, and hence choose the investing mode of wholly owned ventures.

Concurrently, it is found that sales-force marketing expenditures (SFMK) are more intense for IJVs (0.061) than for WFOEs (0.053), suggesting that IJVs more often employ a sales force as a marketing tool. Indeed, in China's new, fast-paced business environment, personal relationship (*guanxi*) literally binds millions of Chinese firms into a social and business web and heavily influences Chinese social behavior and business practices. The Chinese partners of IJVs can utilize their *guanxi* to promote products through sales-force marketing.

According to Table 2, the credit intensity for domestic sales (CREDIT) is moderately higher for IJVs (0.066) than for WFOEs (0.049). This situation can be attributed to two factors. First, IJVs are more dependent on bank loans. The sustained tight monetary policy of Chinese government, reflected in an increase in interest rates and a reduction in bank lending and money supply, has resulted in liquidity problems for many IJVs. Second, as a result of the credit crunch, many Chinese state firms have encountered a "triangular debt" problem, whereby state companies owe large sums of money to each other but have no cash to settle their accounts. Because IJVs have a greater number of Chinese state firms among their buyers than WFOEs (*People's Daily*, 1994: 2), the ratio of accounts receivable to sales will accordingly be more intense for IJVs than for WFOEs.

IJVs and WFOEs, as measured by total assets, vary moderately in size. The average size of an IJV is \$1.45 million while a WFOE is \$1.05 million. The fact that the partners of IJVs are mostly Chinese state firms that are generally large in size may contribute to this consequence.

## CONCLUSIONS AND IMPLICATIONS

The study provides a comparison of the financial performance of Sino-foreign IJVs with that of WFOEs. The findings suggest that the gross margin ratio is significantly lower for WFOEs than for IJVs, but the operating margin ratio is significantly higher for WFOEs than for IJVs. Therefore, WFOEs appear to have a higher level of costs of goods sold and a lower level of operation and administration expenses in relation to total sales than IJVs. Both groups demonstrate similar profit growth opportunities.

WFOEs strongly outperform IJVs with regard to total asset management. In accounts receivable and inventory management aspects, WFOEs also demonstrate a slightly higher efficiency than IJVs. On the other hand, IJVs have a significantly lower current ratio and higher debt ratio than WFOEs. IJVs are dependent more on local financing than WFOEs.

The export growth rate is significantly higher for WFOEs than for IJVs while domestic market growth reveals a slightly higher rate for IJVs than for WFOEs. Foreign investors seeking to enter the Chinese market are more likely to choose the IJV mode whereas those attempting to minimize production costs tend to select the WFOE mode.

R&D expenditure is significantly less intense for IJVs than for WFOEs, but advertising intensity is slightly higher for IJVs than for WFOEs. Technologically advanced investors tend to choose the WFOE mode.

Finally, IJVs appear to more intensely utilize the Chinese *guanxi* network to promote products through sales-force marketing than WFOEs. The credit intensity for sales is moderately higher for IJVs than for WFOEs. The asset size of IJVs is moderately higher than that of WFOEs.

The above findings offer lessons to international executives. First, WFOEs have demonstrated superior financial efficacy over IJVs in terms of asset efficiency and financial risk aversion. If the strategic goal of the investor entering the Chinese market is to pursue optimal asset synergies and/or risk reduction through the globalization of its operations and management, the WFOE is a superior entry mode to the IJV. Second, if the strategic objective of the investor entering the Chinese market is to pursue local market share, the IJV is a better option than the WFOE, other things being equal. Alternatively, if the strategic mission of the investor is to pursue the benefits of cost minimization through export, the WFOE turns out to be a superior choice over the IJV. Third, if the investor contributes its distinctive or core competencies into the venture and does not want these competencies to be exposed to the local partners, the WFOE can enable the investor to have a greater control over venture businesses and thus constitutes a superior mode over the IJV. Last, for those having less experience for the operations in China, the selection of an appropriate local partner and the adoption of realistic policies of sales-force marketing and credit liberalization are the key to the success of a venture operating in China.

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