

Identifying and Managing Key Success Factors for Sino-Estonian Joint Ventures

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Abstract—International Joint Venture (IJV) has been one of the main approaches to entering a foreign market in the last decade. Recently there has been a growing interest to examine the factors of successful IJVs in China and how these IJVs manage effectively with cross-culture from major developed countries. The studies mainly focus on the determinants of successful IJVs performance and how to have effective cultural difference management where the foreign partner in Estonia. In the paper, applying a conceptual model and Hofstede 6D framework are used to analyze of an Estonian-Chinese IJV. The result shows that the market opportunity and strong support from the government are the main factors. Besides, the cultural differences between Chinese and Estonian enterprises are significant to manage. Finally, in the conclusions part, limitations are also discussed together with an outline of future research directions.

Keywords—success factors, *ijv*, cultural difference management, china, estonia

I. INTRODUCTION

In the context of economic globalization, countries are working on the improvement of their modern manufacturing industry because it represents comprehensive national strength. The entire world recognizes the rapid growth of scientific and technological power of China in recent years, especially when in the quick development of the manufacturing industry. As a result, other countries began to cooperate with Chinese, and one of the cooperation named IJV. As a component of the modern manufacturing industry, general aviation is an essential part of the national economy and national defense[1]. Modern manufacturing industry prefers to use new technology, advanced science and technology to process raw materials[2], production equipment. However, with the continuous expansion of low-altitude airspace opening, China's general aviation industry has exposed many problems[1]. In the management process of multinational enterprises, corporate leaders often face communication and management problems of employees due to cultural differences. This study chooses the aviation industry to represent the modern manufacturing industry to analyze the factors about the successful collaboration of Guangzhou Hangxin aviation technology corporation (Hangxin) and Magnetic MRO AS (MMRO). Also, the paper presents six culture dimensions of China and Estonia accompany by the analysis and examine the synergy potential of Hangxin and MMRO.

Thus, the research focuses on the development status of China's modern manufacturing industry and how cultural difference reflects in the management process after the acquisition of Estonian enterprises. The main research questions are as follows: 1) What are the factors that promote the cooperation of China and the European aviation industry. 2) How synergy potential reflects culture difference in the process of managing the company.

The paper organizes as follows. First is the background of the research, the status, the purpose of this research, and the research questions. The second part is the literature review of this study. Thirdly, the details of the case, the research method and the collection of data will present logically. The fourth part is analysing the research data by theories. Lastly, the conclusion and answers to the research questions are illustrated.

II. LITERATURE REVIEW

As the world's second-biggest economy, numerous CCE countries are searching for opportunities to collaborate with the Chinese industry. Higher standards, higher quality and higher return are required for China to build the One Belt and One Road (B&R)[3]. Almost all the countries can take an active part and make their contributions to explore the third-party market. In the collaboration between countries and competition between enterprises, this report is trying to find out the factors that promote the success of IJV and encourage them to cooperate with China industry. Besides, for the better organization between the Sino-foreign cooperative company, this report aims to conclude the cross-culture management for IJV as well[4].

Thus, how to face the internal and external changes and ensure the profit maximization for both sides are the main points in this report. For a better summary of the factors of successful cooperation between Chinese and foreign enterprises in B&R, this report would enumerate data and analyze company cases, and summarize the status of Sino-foreign joint ventures under the framework of B&R. This report would definite whether an economic or political impact is positive for a firm if it invests large projects such as services, power plants, roads, railways and ports. For a better understanding of collaboration of IJV, in the case study part, acquisition of aviation industry between Chinese and Estonian would be introduced as a typical example. Moreover, how to deal with cross-culture managements would be summarized to

help managers adjust transformations incorporates' structure. Many studies have explored the most common variables incorporate cooperation but have not analyzed the real factors why corporate partnership fails [5][6][7][8]. Many studies suggest that organizational cultural differences show synergetic potential in the form of complementary skills and competencies[9]. The higher the synergy potential, the higher the expected integration effect there would be. Therefore, the cooperation between Hangxin and MMRO is the result of a combination of factors, knowledge synergy potential, high-tech enterprises[9].

There are three innovative research directions in the study for IJV. The first creative direction is the research object, which is to select an Estonian company in the case study instead of popular choice like American or Japanese companies. Secondly, it is neoteric that it is the government who take the lead in the collaboration and acquisition of Sino-foreign cooperative enterprise. Estonia economic and trade relations with China are significant because Estonia needs reliable partners. The areas of cooperation and exchanges between the two countries have continuously expanded. In 2017, the Chinese and Estonian governments signed the B&R digital cooperation agreement and the B&R e-commerce cooperation memorandum and decided to promote innovation and development jointly. It is expected that Chinese and Estonian companies will conduct more practical cooperation in new technologies, electronic communications, environmental protection and life sciences. Thirdly, this report innovatively summarizes the cross-culture management for companies in transnational cooperation. However, most of the reports will only focus on the success factors of IJV.

The relation between location determinant and partner choice determinant positively associated. Also, the confirmation between local partner choice determinant and the location determinant of MNE is positively related.

The Hofstede 6D framework enables corporations to handle intercultural and organizational culture challenges by utilizing an effective and proven framework[10]. The cultural dimension represents an independent preference for a state rather than another state that distinguishes nations from one another[10]. However, various cultural differences are still among countries, but this paper only selected the six most representative dimensions that could reflect in Chinese and Estonian enterprises.

III. METHOD

This report employs a case study as the typical research method in business-related studies. Besides, this study would mainly focus on analyzing the acquisition between Magnetic MRO AS and Hangxin and the cross-culture management after the acquisition by using a single-case study.

Qualitative data were gathered through information from a news report and companies' announcements with a purchased news conference of the Magnetic MRO AS and Hangxin. Moreover, the research analysis would involve extensive research, including documented evidence of a particular issue or situation -- symptoms, reactions, effects of specific stimuli, and the conclusion reached following the study.

The Magnetic MRO AS is an Aeronautical manufacturer company headquartered in Estonia, while Hangxin is an Aerospace science and technology Joint-stock limited company in China. The core business and focus of Magnetic MRO AS are Aircraft maintenance and aviation asset management. Xichang's main business includes aviation maintenance and service, with a high reputation in the aviation industry. The acquisition of Magnetic MRO AS and Xinhang has strengthened cooperation between the two countries.

The case was elected based on the fact, that Magnetic MRO AS and Xinhang signed strategic cooperation agreements and started cooperation from May in 2018. The acquisition aims at strengthening cooperation in the aviation industry and improving domestic aviation science and technology. This deal is worth about 43 million euros, and is the most significant Chinese investment in Estonia. Therefore, the cooperation is a combination of active and influential companies, which will promote the implementation of B&R initiative and promote mutually beneficial cooperation. After the acquisition, communication between China and Estonia would be more frequent, which would require cross-culture management to reduce culture conflict. With the support of government and cross-culture cultivate from the company, employees would be cultivated to identify cultural differences and develop cultural identity. Also, there is a necessity for management to remain employees from the original company.

To methodical study the critical success factors of IJV performance, a conceptual model is developed to investigate determinants of performance in the Estonian-Chinese IJVs, and the model illustrates in the following Fig. 1. Those on top of the model represent location determinants, which can be attractive FDI, market profitability and market share dimensions. Also, partner choice determinants are significant to affect IJV performance, which can be divided into industry background, operation capacity and financial competence. However, this study only selects a few most vital factors to test their influence on IJV performance for the reason that is testing all factors are unpractical. Therefore, it would not be feasible to test all determinants in small scale case studies. Subjective performance measures are what this research use, such as financial performance, ownership stability, market position, sales and market share. The last part of the concept model is the conclusion of the critical success factors of IJV performance in China. As we mentioned before, these critical success factors represent an Estonia parent perspective.

IV. RESEARCH ANALYSIS

A. Key Factors of Successful IJV Performance

This report starts at location determinant and partnership choice determinant, which are relevant to contribute to the performance. For location determinant, firstly, attractive FDI policy played an essential role in this case, which means the B&R policy from the Chinese government provides a convenient business platform. The positive relation between business and government can significantly benefit firms' innovation from the management to enlargement of the market[11]. With the strong support of the governments, the decision of company merger and acquisition can be the win-

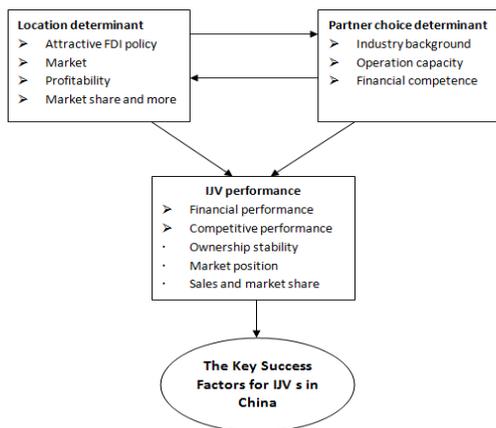
win cooperation. Secondly, the primary services of MMRO are aviation maintenance and air asset management, covering several countries and regions around the world. Therefore, this opportunity could benefit the company to provide higher quality product and service, even enlarge the potential foreign market. The last part is about the market share, and the majority of the market share belongs to MMRO, who has few competitors; The part of partner choice determinants can be introduced from the industry background. Lastly, this company belonged to the investment bank named Creso and the Estonian Government and Nordic Aviation Group, which has a stable profitability liquid for financial competence.

The successful IJV performance could be measure by financial and competence performance. The transaction between MMRO and Hangxin company is the largest one in the investment history from China to Estonia[12]. Moreover, after the announcement of the merger, the stock price of Hangxin has increased significantly. As for competitive performance, ownership stability could guarantee by the content of merger agreement, which shows Hangxin has acquired a 100% stake in MMRO. This merge brings a stronger market position for companies, which means the combination of technologies and finance could develop the core product and service.

From the above case study and analysis, we find that the market opportunity and the support from government policy are the critical success factors of IJV performance. Other factors either did not affect IJV performance or did not show a consistent result.

B. Culture Difference Between China and Estonia

Culture difference is various beliefs, behaviors, languages, ways of expression peculiar to members of a particular race, race or ethnic group[13]. Some examples of workplace cultural differences include employees who are younger or older than their colleagues, employees who have higher degrees than others in the workplace, and individuals who grew up in large cities or small towns, which can all lead to many problems caused by cultural differences. The details are in Table I.



^a. (source: compiled by authors)

Fig. 1. The Framework Of Ijv Performance Analysis.

The reason why the research is about Estonia is that Estonia continues to play an essential role in east-west trade [14]. These two countries still have much difference in culture [10]. First, the power distance is the exact opposite. Chinese employees are tending to obey the rules from supervisors; the relationship between employer and employee is apparent. In Estonia, employees are not willing to obey those people in positions of authority. Managers who give opportunities to express opinions are more acceptable to the staffs.

Secondly, China is a highly collectivist culture. Employees put their heart and soul into work for the good of the entire group instead of only creating profit for themselves. This kind of culture saves much time for leaders on solving the conflicts among employees. However, the limitation is obvious to see because everyone is sticking to the schedule so that the creativity goes down. In other words, Estonian has a strong sense of purpose and the achievement reflects in the person who is responsible directly. In consequence, Estonian take commitment seriously and seldom have time for chatting.

Thirdly, China is a masculine and success-oriented society. Most people in the service industry are more willing to sacrifice spare time to make money rather than spend time with family. In contrast, Estonia is a feminine society, which means society drives modesty and fairness. People in this environment are relatively modest about their achievement. The younger generation takes control of most Estonia companies who like democratic and informal management style.

Fourth, these two countries have a different attitude about avoiding uncertainty. The truth is relative; sometimes, the rules and laws may be flexible in order to fit the actual situation. The Chinese are relatively adaptable and have the spirits of entrepreneurship. In order to protect their own belief, Estonia will automatically reject some non-mainstream ideas.

Two similarities of Chinese culture and Estonia are the long term orientation and Indulgence. Both countries are highly pragmatic. The truth depends on time, context and situation. Also, both of them are societies of restraint. Restrained societies do not focus too much on spare time and try to keep desires to a minimum.

In mergers and acquisitions, the potential for synergies is enormous if the combined companies share complementarities rather than similarities[15]. Although organizational cultural differences are associated with post-acquisition implementation issues, it leads to higher acquisition performance[16]. While synergy potential and culture have received extensive attention in the study of international business and organizational behavior but so far there is a limited understanding of how and when synergy potential, autonomy, the effectiveness of post-merger integration, and organizational cultural differences affect merger performance[6].

TABLE I. SIX CULTURAL DIMENSIONS

	China	Estonia
Power Distance	The relationship between superior and subordinate is polarized Individuals are subject to formal authority and sanctions	Do not readily obey and respect people in authoritarian positions Welcome managers that allow them to state their opinions and express disagreement
Individualism	China is a highly collectivist culture where people act for the collective good Employee commitment to the organization (but not necessarily to the people in the organization) is low	An Individualist country, personal responsibility and everybody's achievement and contribution to be self-fulfilled say what they mean and mean what they say and there is limited time for small talk.
Masculinity	Masculine society success-oriented and driven	Feminine country Run and staffed by people of a younger generation, who favour an informal, democratic and consultative management style. Thus, decisions are ideally made by gaining support through participation.
Uncertainty Avoidance	Abiding by laws and rules may be flexible Chinese are adaptable and entrepreneurial	Countries that exhibit high levels of uncertainty avoidance maintain strict beliefs and codes of conduct that do not tolerate unorthodox behavior and ideas
Long Term Orientation	Pragmatic culture Truth depends very much on the situation	Highly pragmatic Truth depends very much on situation, context and time
Indulgence	Restrained society Actions are Restrained by social norms	Restrained in nature A tendency to cynicism and pessimism

^b (source: Modified from Hofstede insight 2019)

According to Synergy potential, there are many factors that the Chinese company needs to take into consideration. For example, does the acquired company have anything worth cooperating with? The collectivist employees ensure the execution of the task while the individualist employees come up with a new idea, which would not only make sure the efficiency but also ensure the creation of the entire employees' group. Long Term Orientation and Indulgence are two common points out of six for China and Estonia. Power Distance and masculinity are hard to solve because it is rooted in a country's social attitudes, and it takes a long time to change.

V. CONCLUSION

IJVs are commonly used to enter the Chinese market, and IJVs have received a tremendous academic and managerial interest. Accordingly, there is an increasing interest to study the key factors or determinants underlying IJV performance. However, in the precious IJV performance researches, the subjects selected mainly from major developed countries such as the USA instead of small developed European countries

such as Estonia. This paper extends current IJV performance research by studying the Estonian-Chinese IJV. The literature review section describes the reason why this report is necessary, the direction of the research, the innovation research method and an overview of IJV theories with a conceptual model. The results show that the market opportunity and favourable government policy are the critical success factors of IJV while the power distance, masculinity, uncertainty avoidance and individualism are the core parts of cultural differences in the internal management process of Chinese and Estonian enterprises. All other factors relate indirectly associated with the identified critical factors, or they did not show a consistent result.

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