

## The Effect of Parents Control on TMT's Cognitive Structure in International- Equity-Joint-Venture (IEJV)

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### Abstrak

Stabilitas dan keberlangsungan (*sustainability*) *international-equity-joint-venture* (IEJV) sangat dipengaruhi, kalau tidak ditentukan, oleh bagaimana mekanisme kontrol manajemen yang dilakukan oleh perusahaan induk (*parents companies*). Berdasarkan studi literature, saya membedakan antara dua tipe mekanisme kontrol manajemen: dual dan single manajemen kontrol. Dalam artikel ini, penulis membangun model berdasarkan sebuah premis bahwa mekanisme kontrol manajemen yang dilakukan oleh perusahaan induk akan mempengaruhi proses kognitif dari Top-Management-Team (TMT) dalam IEJV selama proses pengambilan keputusan strategis. Kontrol manajemen 'dual' membuat proses kognitif TMT lebih kompleks dan beragam dibandingkan dengan kontrol manajemen 'single'. Hal ini membuat konflik kognitif dalam kontrol manajemen 'dual' lebih intens dibandingkan dengan kontrol manajemen 'single'.

**Keywords:** IEJV, TMT, Management Control

Literatures on international business noted that multinational corporations have increasingly used International-Equity-Joint-Venture (IEJV) as a vehicle for Foreign Direct Investment (Beamish 1987, Killing, 1983). IEJV allows companies to rapidly and economically complement their own resources with those of other firms (Hambrick *et al.*, 2001). As an alternative to either full integration or simple market exchange, the IEJV facilitates inter-firm learning and transfer of intangible assets. Moreover, if the benefits deriving from joint efforts, minus the transaction costs specific to the formation and operation of the IEJV, remain greater than the sum of those benefits from exploiting firm-specific advantage separately, IEJV creates 'synergies' and enhances economic rents to the partners (Hennart, 1988). These synergies can be the result of risk reduction, economies of scale and scope, pro-

duction rationalization, convergence of technologies and better local acceptance (Harrigan 1988, Parkhe 1993).

IEJV is one of the contractual forms that most frequently used in strategic alliances. IEJV refers to two or more firms agree to set up a new entity, owned by them, to carry out some activities in which they are interested, although not necessarily for the same reasons (Killing, 1983). IEJV is a separate legal organizational entity representing the partial holding of two or more parents and require commitments of its capital by participants (Beamish & Banks, 1987). In this kind of venture, at least one of its parents companies is located outside the country of operation of the joint venture (Shenkar & Zeira, 1987). This entity is subject to the joint control of its parents firm, each of which is economically and legally independent of the other.

Although co-ownership of IEJV by parent company is a powerful means for aligning their interest, the lack of exclusive ownership by either parent and the possible lack of congruence between the

objectives and administrative systems of parents, represent challenges to the task of designing effective control structure (Yan & Gray, 1994; Luo, 1995). One line of theory suggests that because of their dual control structure and inherent potential instability. IEJV that have a dominant controlling parent will be the most stable and successful (Killing, 1983). Thus, the question of how parents should coordinate and control IEJV operation is a significant and challenging (Kumar & Seth, 1998).

IEJV has a specific characteristic, in which there are more than two parents companies, and these conditions are believed will create difficulty to manage it (Killing, 1983; Steensma & Lyles, 2000). The source of problem could be each parents have hidden agenda of the IEJV, and it didn't write in the contractual process during the development of IEJV (Zeira & Newbury, 1999). These hidden interests will communicate with the IEJV managers during the process of strategic decision making, and the IEJV managers will receive the information and direction different from each parent. Such direction from parents company is perceived as an important thing, because it will become as a main consideration or condition of IEJV's manager careers in the future (Killing, 1983). Thus, each manager will truly pay attention what of interest of parent company.

The main aim of this article is to show conceptually the consequences of management control types, exercised by parent company, on IEJV's Top-Management-Team (TMT) cognitive structure. I believe that the mechanism of management control influence the interaction among TMT members to make strategic decision making. In this study, I will make a comparison between two types of management control: (1) single management control, and (2) dual management control.

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I assume that each management control contains different information load and type given by parent company.

### Parents' Control

Literatures on IEJV argue that the design and implementation of an appropriate parents' control structure are crucial elements of IEJV's performance (Killing, 1983; Geringer & Herbert, 1989). Through control mechanism parents companies can distribute and accumulate competitive advantage realized by IEJV's. Another perspective considers that through control mechanism, parents company can synergy and harmonize the IEJV's strategies and activities to the parents' strategy (Stopford & Wells, 1972). Such mechanism allows parents company to implement global strategy. From the competition perspective, parents' control also protect against the loss of competitive advantage to the partner or some other competitor (Hamel, 1991; Geringer & Hebert, 1989). Parent company has the experience and knowledge on how to protect their competitive advantage operating in international market (foreign parent company) and also in diverse activities in local market (local parent company).

I build upon Harrigan's (1986) insight that control mechanism is influenced by the trade off between two factors: the parent's need to control and the necessity to have autonomy for IEJV's. Control allows parent company to integrate the IEJV's activities with the overall strategy and activities of the parent (Gullander, 1976) and reduce the risk of agency problem. However, IEJV frequently fails to meet parents' objective (Beamish, 1985; Kogut, 1988), and are often unstable and short-lived caused by parental conflict or lack of adaptability in the local market. On the other hand, the necessity for autonomy comes from the fact that local environment uncertainty confronted by the IEJV needs certain amount of flexibility to deal with (Harrigan, 1985). Highly following guidance and direction decided by parent company it is not only reduces the speed to make strategic decision but also decrease of creativity of IEJV's managers. Hence, the quest to find the balance between the necessity to control and, in the same time, allow managers in local market adapt with

unstable environment becomes important.

From the standpoint of games theory, IEJV is considered as a mixed motive games between partners who cooperate and compete simultaneously (Hamel *et al.*, 1989). According to the negotiations perspective, the relative bargaining power of each parent company shapes the pattern of management control. Negotiation and bargaining power can be described using resources dependence theory (Pfeffer & Salancik, 1978). This thought main-stream suggests that the possession or control of critical resources constitutes power in inter-organizational relations. If a firm contributes more critical resources to an organizational arrangement than its partner, it will be more powerful than the partner in the partnership between them. Put simply, the relative bargaining power of parent company is determined by who brings what and how much to the venture (Harrigan, 1986). A partner gains bargaining power if the joint venture depend heavily on resources it contributes that are costly or impossible for other partners to replace and critical to the venture's success.

Despite the importance of this question, there is still limited systematic evidence on the complex and multidimensional phenomenon on IEJV control structure. Geringer & Hebert (1989) note two deficiencies why these situation is happened; (1) most previous studies are not integrative across mechanism. Parents companies might use many possible mechanisms to control IEJVs, but each study consider only one or two of these rather than the range of mechanisms. (2) Most previous studies do not recognize that the value of a particular control mechanism is likely to vary across situation or explain the factors that might underlie this situational variation.

Literature on this line noted that parents controls mechanism could be dominant, autonomy, shared and split control (Hambrick *et al.*, 2001). Dominant control is happened when the IEJV is managed entirely by one of the parents, with the other parent playing a more passive role (e.g., often supplying only capital as a requirement of equity joint venture). The second type of IEJV is the 'Independent' in which the IEJV general manager is given

considerable autonomy, including in managerial position hiring; in many cases, most or all of the IEJV senior managers are hired externally, with no particular ties to the parents, and hence, little potential to form coalitions along parent company interest. Shared control is mostly a dual control, in which both parents exercise a high degree of influence over the venture's full range of decisions. In this mechanism parents tend to place their own delegates into as many managerial positions as they can reasonably secure, they are interested in, and feel dependent upon the managers in the position filled by other parent. The second type is 'split control', in which both parents are involved in the management of the IEJV, but they agree to control distinct functional areas (Geringer & Herbert, 1989).

From the fourth of the type of control, I will focus on dominant control and dual control (shared and split control). Dominant control in which only one parent that in charge in the management control, it means there's only one interest that TMT in IEJV must be considered. In otherwords, IEJV's TMT deals with one interest and task order from the share holders. In contraire, face dual control, TMT deals with more than one interest and source of task order. Thus it could make the process of strategic decision making in the venture more complex. They must deals with the ambiguity of information, conflicting interest, parents' conflict, and political game caused by dual control mechanism in IEJV's operations.

### Top Management Team (TMT) in IEJV

IEJV's top management team (TMT) refers to the management people, composed by relatively small member, of highest-ranking managers (Hambrick *et al.*, 2001). This group typically includes the general manager (if such a position exist), and other managers who report directly to general manager or other form of highest structural rank (e.g., country manager, president director or operation manager). Unit of analysis is TMT as a group of leaders rather than individual entity because managers often work in teams to make strategic decision because the complexity and ambiguity of the issues with which they must grapple can overwhelm

the capacities of any individual (Child, 1972; Hambrick & Mason, 1984; Mason & Mitroff, 1981). Therefore I prefer to use the concept of group or team to indicate the importance role of managers rather than individual dimension. Hence the level of analysis in this article is the collective dynamism among the member of management team in IEJV. Accordingly, a team's decision-making effectiveness depends in part upon its member's cooperativeness in providing information and in fully airing differences in assumptions and interpretations (Schweiger *et al.*, 1989).

Control of management position is a central issue in IJV negotiations, and parents companies are assumed consistently seek to have representation in the management of the IEJV. The highest structural position like general manager position is seen as most crucial because of the authority power to decide strategic decisions and resources. It is not surprisingly that during the formation of management team, parents companies intensify the exercise of their bargaining and negotiation power to secure strategic organization position. The formation of management team is best explained by resources dependency perspective. If one partner has a dominant equity position or some other basis of power (e.g., critical technology or local market competency) it can usually secure top position (Child & Yan, 1999). The parent who does not win the top position will argue strongly for other slots, sometimes even proposing the creation of special positions (such as deputy general manager or director of administration) as a way of obtaining the desired level of representation in the management of the IEJV. Consequently, conflicting situation is embedded during TMT formation.

However, IEJV's TMT is believed inherently coalitional, as joint venture manager also serve as 'representatives' or 'delegates' of their respective parents (Hambrick *et al.*, 2001). As described before that each partner will struggle to obtain the favorable position to secure their interest in IEJV. Each partner is believed have different interest, objective and agenda during the formation of alliance. This situation will be more complex in the international strategic alliance rather than

local strategic alliance. The different of management culture, administration treatment, and organization strategy and culture of parents company make the formation of TMT becomes difficult. If there is not a strong commitment and a high degree of understanding among Parents Company, then IEJV will be ended in earlier than expected.

People placed on the TMT are believed will have a high degree of work stress. On the one hand, the managers are expected to focus and to maximize on the IEJV objectives. But, as an outgrowth of the inherent strains in having two (or more) owners who may have conflicting agenda, IEJV's managers are also expected to protect their own parents company's interest and ensure that their counterparts do not try to abuse those interest (Child *et al.*, 1997; Mjoen & Tallman, 1997; Yan & Gray, 1994). Parents Company has a hidden agenda of IEJV, and the problem is it does not write in the contractual process during the development of ventures (Zeira & Newbury, 1999). These hidden interests will be delivered during the IEJV activities and operations. Therefore each parent company tries to limit the possibility of partner opportunist behavior through it representative (manager) in TMT. The role of managers in TMT is not only to maximize the IEJV's objective but also as a protector of their parent company's interest. Managers in this situation receive the information and direction from different parent company.

#### **Cognitive Process during Strategic Decision Making**

The cognitive psychologist studies human perceptions and the ways in which cognitive processes operate to produce responses. Cognitive processes (which may involve language, symbols, or imagery) include perceiving, recognizing, remembering, imagining, conceptualizing, judging, reasoning, and processing information for planning, problem solving, and other applications. The challenges of studying human cognition are evident when one considers the work of the mind in processing the simultaneous and sometimes conflicting information presented in daily life, through both internal and external stimuli.

Analyzing cognitive structure is important because of its influence on strategic decision making in an organization. However, Mintzberg *et al.*, (1976: 246) define a strategic decision as one which is 'important, in terms of the actions taken, the resources committed, or the precedents set'. More specific strategy making can be conceptualized as a key process requiring purposeful design just as product development, production, order fulfillment, or service quality represent critical firm process. Hambrick and Mason (1984) argue that the strategies and the effectiveness of an organization are reflection of the value and cognitive bases of its powerful actors. Strategies are abstraction in the mind of managers (Mintzberg, 1987) and they emerge from sets of ideas and constructs through which problems are identified and interpreted (Hedberg & Jonsson, 1977).

In this research, I focus on cognitive structure and process of TMT in IEJV. Such cognitive structure will be analyzed based on two categories: (1) diversity, and (2) complexity. The cognitive process during strategic decision making will investigated from the cognitive conflict point of view. General assumption on this research is there is a close linkage among cognitive diversity, cognitive complexity and cognitive conflict among TMT members. However it is not happened automatically. Considering the distinctive nature of IEJV, thus control mechanism exercised by parents companies as a main cause of cognitive structure and process of TMT members.

#### **Cognitive Diversity**

Cognitive diversity is defined in terms of differences in belief and preferences held by TMT. More specifically, cognitive diversity refers to variation in belief concerning cause-effect relationship and variation in preference concerning various goals for the organization (Miller, 1990). Such variation underlies differences in perspectives that end to enduring beliefs and preferences tend to create disagreement when specific strategic issues are being considered. The source of cognitive diversity comes from wide array of causes such as; the diversity of task or functional activities held by managers, and the diversity of personal background (e.g., level and type

of education, socio-cultural, economy power, and environment). Research has proved that the diversity of the TMT members, based on different nationality, influence the cognitive diversity in the team (Hambrick *et al.*, 2001). This cognitive diversity stems from the influence that nationality has on one's knowledge, values, cognitive schema and language held by each manager.

In an organization this diversity cannot be eliminated. The most important thing is how an organization manages this kind of diversity. Cognitive diversity can be considered a resource for effective management of IEJV, as divergent points of view and knowledge bases are brought to bear on problem solving. Bantel and Jackson (1989) argued that when solving complex, non-routine problems, groups are more effective when composed of individuals having a variety of skills, knowledge, abilities and perspective. This situation enables the process of decision making more comprehensive (Fredrickson, 1984; Fredrickson & Mitchel, 1984). Wide array of perspective and point of view will be mobilized to analyze, evaluate and choose solution for a given problem or opportunity. Schweiger *et al.*, (1986) have found that conflict-inducing techniques contribute to the effectiveness of strategic decision-making groups.

However, the cognitive diversity in TMT also gives negative consequences. An abundant stream of research indicates that group diversity engenders conflict (e.g., Milliken & Martins, 1996; Pelled, 1996). This well-known tendency is a direct outgrowth of the fundamental human tendency for people to be drawn to, like, trust, and communicate with others like themselves, and to avoid, distrust, and dislike those who are dissimilar. Differences in readily apparent personal characteristics (e.g., gender, race, age) have been found to particularly give rise to mistrust and dislike in-group setting, as a result of stereotype.

The direction of the effects of cognitive diversity with comprehensiveness, however, is unclear, with some arguments suggesting positive effects while others suggest negative effects. Positive effect suggests when there are many disagreement surrounding an immediate opportu-

nity or threat, or a long-range plan, aware of more issues, more ways of viewing each issues, more alternative courses of action. Once aware of the rang of issues and options, TMT can discuss them, commission relevant analyses, hire consultants for help in areas of weak knowledge, and so on. If there are few or no disagreements at the outset, TMT is less likely to consider a wide range of issues and option because they simply would not think of many problem. Lant *et al.*, (1992) point out, disagreement can result in more extensive discussion of strategic options, more learning opportunities, and, thereby, reduce the like hood of a groupthink-type phenomenon occurring.

Argument suggesting cognitive diversity negatively affects comprehensiveness is diversity often implies disagreement over strongly held preference and beliefs that will not be compromised. Thus, extensive decision-making may lead to head-butting rather than to issue resolution. If so, one or a few executives may quietly address strategic issues behind the scenes while not opening up the process to others. In such condition, existing executive diversity would not have a chance to cause further analyses or debates.

### Cognitive Complexity

Cognitive complexity refers to the degree to which elements within a construct systems are differentiated yet integrated and has been demonstrated in a wide array of research. The complexity of cognitive structure is needed by TMT during strategic decision making. Strategic problems and strategic decisions making are complex (Mintzberg *et al.*, 1976; Lyles & Mitroff, 1981; Mason & Mitroff, 1981). Environments become more complex as international competition and knowledge flows develop and the scope of some diversified multinational companies (MNC) adds even greater complexity (Prahalad and Doz, 1987). Ginsberg (1989) also argues that the management of diversified companies requires an adequate level of 'socio-cognitive' complexity at the level of top management. In line with the arguments handling diversity requires high cognitive complexity from TMT in order to embrace the complexity of his or her environment (Calori *et al.*, 1994).

Jacques (1990) has recently argued that different levels of cognitive complexity are needed at different hierarchical levels as a function of the task. Different level of organization hierarchy has different task complexity. This function characteristic is believed will influence how people think in each hierarchy level. If ones situated in higher hierarchy level, they face high complex task-related and personal-related job. Thus people in this situation have more complex cognitive structure compared to people situated in lower hierarchy level. However, Simple structures may therefore develop over time into complex ones by the inclusion of new experiences (Lyles & Schwenk, 1992).

Complexity in knowledge structures is considered as a multidimensional construct, best assessed with multiple measures (McNamara *et al.*, 2002). As Lurigio and Carol (1985) demonstrated, complexity can be seen in both the number of categories identified by a respondent and the amount of data points coded into each category. There is more agreement in defining individuals or group cognitive complexity. According to complexity theory, the complexity of an individual conceptual system is determined by two interdependent aspects: the number of part of dimensions of the system and the nature and the extent of rules for integrating these parts.

High cognitive complexity among the team can be highly dysfunctional unless integration is achieved. Particularly socio-cognitive complexity may be dysfunctional in the implementation of strategy (Ginsberg, 1990). The principle role of TMT is as a cognitive integrator (Bougon, 1992). In order to play this integrative role the TMT may need high cognitive complexity. People with a higher level of cognitive complexity tend to have a higher tolerance for ambiguity, assume leadership roles and more capable of taking the perspective of others and resolving conflicts cooperatively. However, the degree of environmental complexity may influence the degree of cognitive complexity (Hedberg & Jonsson, 1978). In complex situation high cognitive complexity should lead more accurate perception and more effective behavior. Corporate executives with more complex construction systems manage business diversity more effectively (Ginsberg, 1989).

### Cognitive conflict

Cognitive conflict refers to task-oriented differences in judgment among TMT members. Jehn defines cognitive conflict as 'disagreements about the content of the tasks being performed, including differences in viewpoints, ideas and opinions' (1995: 258). Cognitive conflict concerns with the presence of issue-related disagreement among members. Cognitive conflict is likely to arise in groups that, like boards, are interdependent and face complex decision-making tasks. Because the issues facing boards are complex and ambiguous, board members are liable to characterize issues differently and to hold different opinions about what the appropriate responses to these issues (Dutton & Jackson, 1987).

In addition, cognitive conflict results in the consideration of more alternatives and the more careful evaluation of alternatives-processes that contribute to the quality of strategic decision-making in uncertain environments (Eisenhardt *et al.*, 1997). Arguing and debate concerning task-related, and not emotionally side, increase variables analyzed during decision making. Watson and Michaelsen (1988) have found that groups performing an intellectual task perform better when their interaction behaviors feature the inclusion of multiple viewpoints and the exchange of both positive and negative comments. One problem will be treated in different ways from

wide array of perspective. This situation increase the quality of decision will be decided that is decision more comprehensive, adaptive, and has high of commitment from TMT. Previous studies (Schweiger *et al.*, 1986) have shown that groups using structured methods of task-oriented conflict (such as dialectical inquiry or devil's advocacy) during decision-making produced higher quality recommendations than groups using agreement-seeking processes. However, agreement seeking processes led to greater member satisfaction with the group and higher acceptance of their group's decision (Knight *et al.*, 1999).

In spite of these beneficial effects of cognitive conflict, cognitive conflict also can arouse negative emotions (Nemeth & Staw, 1989) that diminish interpersonal attraction among members. Findings by Jehn (1995) and Schweiger and colleagues (1986) demonstrate that members of groups with high levels of cognitive conflict experience lower levels of satisfaction with the group and express less desire to remain with the group. Mace (1986) found evidence that these dynamics can apply to groups as well. Because of the pressures of their competing responsibilities, many directors respond to high levels of cognitive conflict on the board by reducing, rather than increasing, their commitment to the board.

### The Consequences of Type of Control

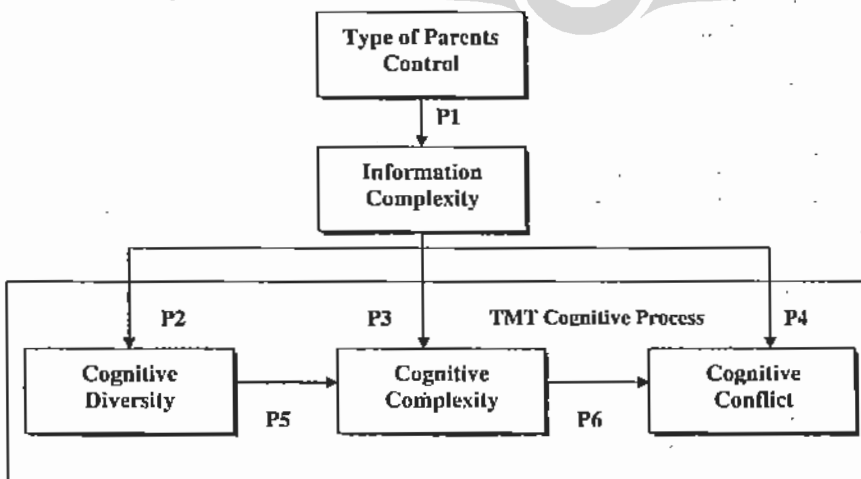
I focus in this article by making a comparison between single and dual management control in the cognitive process of TMT in IEJV. I believe that based on characteristics of each management control type, both single and dual management control has different consequences during strategic decision making. However, the effect of type management control does not influence directly to the cognitive process of TMT. There is a significant different of information content and amount should be treated in each management control type. Dual control is assumed will have more information from Parents Company than single management control. The conceptual framework could be seen as below:

### Parents Control Type and Information Complexity

This study assumes that the configuration and type of parents control during the process of strategic decision making in IEJV. Strategic decision is important and involved the resources committed (Mintzberg *et al.*, 1976), thus it will have an important impact of the ventures as a whole and will have a significant effect on the IEJV's long-term performance. The importance of resources committed and its consequences makes each parent company will ensure its interest will be protected by managers in the ventures. Such situation makes strategic decision making process becomes conflicting and high-tension embedded (Killing, 1983; Lyles & Salk, 1996).

In this research, I argue that there are two types of parents control which are determinant to influence IEJV operations; (1) dominant control and (2) dual control. Dominant control refers to the one management parent whom controls and influences the strategic decision making in the IEJV (Killing, 1983). In contrast, dual control associates with the type of management control which both parents agree to exercise a high degree of influence over the IEJV's full range of strategic decisions, split control happened when both of parents are involved in the management and they agree to control distinct functional areas (Yan & Gray, 1994). According to Hambrick *et al.*, (2001) dual control consists of shared and split control. However

Figure I  
Conceptual Framework of the Effect of Management Control Type



I do not make a distinction between shared and split control. During the process of strategic decision making, either shared control and split control have the same characteristics such as; (1) the managers in the such of control are represent of each parents company, (2) no matter, either exist distinction precise of functional areas of the managers or not, the strategic decision maker in the ventures will receive information and interest from each of the parents, (3) the process will involve two type of managers, in whom each of type manager hold the different resource. I

More than one parent company that control and influence strategic decision making means more than one source of information received by the managers in the ventures. Each parent company gives and transfers instruction and direction to ventures' managers. The situation could be worst when parents company's instruction and information are conflicting rather than complementarily, while different parent company's interest must be considered by the managers. In other side, the managers in the dominant control will only received single instruction and information from one parents company. Thus the managers in the dual control types will deals with more information than the managers in the dominant control. Thus the managers in the dual control types will deals with more complex information than the managers in the dominant control.

Proposition 1: Top management team (TMT) in the venture will have more complex information during strategic decision making, when they deal with dual control structure rather than those in the dominant control structure

### **Information Complexity and Cognitive Diversity**

Organizations need to develop their knowledge structure through the process of information and their knowledge structure, and the organization is the organisms as well as individual in the universe. Recently, there is a growing utilization and application of information science for analyzing organization from the point of view information aspect (Daft & Weick, 1984; Smith *et al.*, 1991). The central interest in the information literature is information process and such process has an objec-

tive to reduce uncertainty from a problem given (March & Simon, 1958). The uncertain condition faced by an organization not also come from the lack of information regarding the environmental factors, but also overload information received by the organization will create uncertain condition (O'Reilly, 1980). Organizations under high information load would tend to employ these uncertainty reducing behaviours in order to reduce their perceived uncertainty. In the condition of overload information, the organization increased beyond the capacity of the system to process them, the level of stress and confusion increased, and breakdowns in service occurred. Being 'overloaded', similarly, the danger of 'not getting the word' or receiving too little information also are intuitively obvious (O'Reilly, 1980). Thus information intelligence needed to reduce the uncertain condition both in the overload and under load information.

Information from parents companies could be instructions, mandates, assignments, and directions transferred to ventures' managers. As stated before that dual management control involve more than one Parents Company to coordinate and to control IEJV's activities and operations. Consequently, managers will receive more than one assignment and direction and sometime conflicting. Face with this situation, the member of TMT more divergent in terms of their opinion, ideas and perception of what had been demanded by parents companies. This situation results diversity in the perception of TMT members. Before this diversity will be realized in terms of individual and collective action, it manifest in the cognitive context.

Cognitive diversity is defined in terms of differences in belief and preferences held by TMT members within ventures. More specifically, cognitive diversity refers to variation in belief concerning cause-effect relationship and variation in preference concerning various goals for the organization (Miller *et al.*, 1998). Such variation underlies differences in perspectives that end to enduring beliefs and preferences tend to create disagreement when specific strategic issues are being considered. It is not only the international context of joint venture (e.g., different of

national culture, language, and business practice between parent company) that contributes the cognitive diversity but also the different of direction and interest of parent company must be fulfilled by ventures' managers play an important role to create cognitive diversity.

Managers in the dual management control received more information rather than single management control. It is not only the amount of information but also the characteristics (e.g., conflicting, complementary, symbolic message) of information will determine the cognitive diversity in the TMT members. I consider that the instructions and directions of Parents Company are the factors must be considered during strategic decision making. The degree of information complexity should be managed by managers increase the cognitive diversity among them. This situation is quite different in the venture when there is only one parent who controls IEJV's operation and activities. Managers have only one direction and assignment. This situation reduces the complexity of information faced by managers. Consequently, managers in that situation have smaller diversity about the goals and strategies must be taken.

Proposition 2: Face with more information complexity, TMT in the dual management control will have more cognitive diversity rather than those in the single management control structure

### **Information Complexity and Cognitive Complexity**

As growing information must be handled and treated in IEJV, managers need certain capacity in the information gathering, collecting, and interpreting (Wally & Baum, 1994). In other words, each manager in the venture should develop their knowledge structure through the process of information and knowledge structure. Simple cognitive structures may therefore develop over time into complex ones by the inclusion of new experiences (Lyles & Schwenk, 1992). Put simply, when managers habitually deal with complex information it will form how the managers treat uncertainty, ambiguous and conflicting information. In contrast, when environmental information is less complex,

managers do not need to develop complex cognitive structure to handle information.

As stated before, dual management control provides higher degree of information complexity (e.g. the amount, the ambiguity, the uncertainty and the conflicting information) rather than single management control. Such information complexity come from more than one parent company that controls the venture and each parent company has its own agenda and opportunity behavior probabilistic to ventures' activities. Single direction from parent company simplifies the clarity of information and assignment received by managers. Brief, managers face lower degree of information complexity in the single management control.

High degree of information is assumed influence and form complexity of cognitive structure of the TMT in the ventures. The TMT can be viewed as a cognitive integrator in high degree of uncertainty (Bougon, 1992). In order to play this integrative role the TMT may need high cognitive complexity as suggested by the arguments developed by Bartunek (1983). People with a higher level of cognitive complexity tend to have a higher tolerance for ambiguity, assume leadership roles, are more capable of taking the perspective of others and resolving conflicts cooperatively. The degree of environmental information complexity may influence the degree of cognitive complexity (Hedberg & Jonsson, 1978). In complex situation high cognitive complexity should lead more accurate perception and more effective behavior (Bartunek, 1983).

Proposition 3: Face with more information complexity, TMT in the dual management control will have more cognitive complexity rather than those in the single management control structure

### Information Complexity and Cognitive Conflict

As stated above that cognitive conflict differ significantly to affective conflict. Literatures on this field recorded that this kind of conflict associates with task-related and non-personal conflict. High cognitive conflict means that managers have high disagreement about the problem statement

and its solution. The different of idea, perception and judgment are common situation in high cognitive conflict. Cognitive conflict is likely to arise in groups that, like boards, are interdependent and face complex decision-making tasks. Because the issues facing boards are complex and ambiguous, board members are liable to characterize issues differently and to hold different opinions about what the appropriate responses to these issues.

Cognitive conflict involves the use of 'critical and investigative interaction processes' during decision making process (Amason, 1996: 104) that can enhance the TMT performance in the ventures. The presence of disagreement and critical investigation on the Parents Company may require TMT in the venture to explain, justify, and possibly modify their positions on important strategic issues and to entertain alternative perspectives and courses of action. Moreover, the existence of cognitive conflict on the TMT in the venture can serve to remind management of the power and role of the board (parents) and of the importance of considering shareholder interests in the formulation of strategy even beyond the boardroom.

It is assumed that in dual management control, TMT in the ventures deal more complex information received from parent company. This situation influence how the member of TMT thin and interpret a strategic and tactical issue. Each parent company gives its opinion, instruction and assignment. Face with this situation, IEJV's managers will choose the appropriate information based on their background (e.g., educational, nationality, interest of parent company who assign them) and individual interest. The diversity of idea and opinion of each TMT's member increase because each person has its own perception and judgment. This situation will be different when there is only one parent company that controls the venture. The unique assignment and direction from parent company reduce the uncertainty, ambiguous and conflicting information. Accordingly, TMT have more consensus and agreement about the information received from parent company because its information clarity higher relative compared to dual management control. Based on this consideration, I argue that high

cognitive conflict among TMT members will be higher in dual management control rather than in single management control.

Proposition 4: Face with more information complexity, TMT in the dual management control will have more conflict rather than those in the single management control structure

### Cognitive Diversity and Cognitive Complexity

Cognitive diversity is defined in terms of differences in belief and preferences held by TMT member within the firm (Kilduff *et al.*, 2000). More specifically, cognitive diversity refers to variation in belief concerning cause-effect relationship and variation in preference concerning various goals for the organization (Miller *et al.*, 1998). Such variation underlies differences in perspectives that end to enduring beliefs and preferences tend to create disagreement when specific strategic issues are being considered.

The relation between cognitive diversity and cognitive complexity based on several considerations: (1) the diversity of cognitive structure of issues and options necessitates TMT members discuss them and hire consultants for help in areas of weak knowledge, and so on. If there are few or no disagreements at the outset, TMT member are less likely to consider a wide range of issues and option because they simply would not think of many problem. Disagreement can result in more extensive discussion of strategic options, more learning opportunities, and, thereby, reduce the like-hood of a groupthink. (2) The second argument is a simple argument put forth by Fredrickson and Mitchell (1984). When they are many disagreements in strategic decision-making, TMT members are more likely to expend the cognitive resources necessary for more analyses, more discussion and debate. In other words, the needs to resolve disagreements make TMT members must consider wide array of alternatives and perspectives from different point of view. Accordingly, TMT's cognitive structure becomes more complex because the evaluation and assessment of strategic problems given is more comprehensive than in less TMT cognitive diversity.

Diversity in the cognitive structure is believed will have significant impact of the complexity of collective cognitive structure. TMT members must consider the other ideas and opinions. Communication process and network among members becomes more complex. In which, each person will be related and communicate his/her opinion to persuade that his/her solution is the best solution. Another scenario the inter-related opinion is needed to facilitate and to enhance common understanding between TMT members. Each person in TMT should not consider his/her own opinion and ideas but also the others. From the collective phenomena, TMT as a group will have more cognitive complexity when cognitive diversity among TMT member is occurred.

Proposition 5: High degree of cognitive diversity in TMT's members influence positively cognitive complexity among them

#### Cognitive Complexity and Cognitive Conflict

A stream of research indicates that group diversity and complexity engenders conflict (Pelled, 1996). This well-known tendency is a direct outgrowth of the fundamental human tendency for people to be drawn to, like, trust, and communicate with others like themselves, and to avoid, distrust, and dislike those who are dissimilar (Tsui & O'Reilly, 1989). Differences in readily apparent personal characteristics (e.g., gender, race, age) have been found to particular give rise to mistrust and dislike in-group setting, as a result of stereotype. In addition, cognitive conflict results in the consideration of more alternatives and the more careful evaluation of alternatives-processes that contribute to the quality of strategic decision-making in uncertain environments.

Schweiger *et al.*, (1986) have shown in their study that groups which composed of wide array of ideas, opinion and judgments among its members will use structured methods of task-oriented conflict (such as dialectical inquiry or devil's advocacy) during decision-making. These kinds of method will produce higher quality recommendations than groups using agreement seeking processes. However,

agreement seeking processes led to greater member satisfaction with the group and higher acceptance of their group's decision (Knight *et al.*, 1999). Watson and Michaelsen (1988) have found that groups performing an intellectual task perform better when their interaction behaviors feature the inclusion of multiple viewpoints and the exchange of both positive and negative comments. With more discuss and debate during strategic decision in the ventures, TMT members will look the problem from many aspects, because each member insist with his opinion of the strategic problem. Put simply, high cognitive complexity induces high cognitive conflict among TMT members.


Proposition 6: The complexity of cognitive process among TMT members influence positively the formation of cognitive conflict in the TMT

#### Conclusion and Further Research

As we note earlier that, IEJVs inherently unstable because of the opportunistic tendencies of each parent company and these tendencies to act opportunistic make parental conflict greater. Facing with the greater conflict of parents, TMT in the venture deals with the uncertain environment in the strategic-decision-making. And the idea of conflict as a source of uncertainty is thus neatly captured (Bennet & Cropper, 1990). This situation gives a big impact on TMT cognitive structure and process during strategic decision making in the IEJV.

Dominant and dual control have different characteristics of parents interest, in dominant control there will only one parent who will in charge and influence the strategic decision making in the venture and in other side the dual control, there will we more than one parents company who could influence the strategic decision making in the ventures. More than two parents company, it means more than two source of information received by the managers in the ventures during the process of strategic decision making. In other side, managers in dominant control, will only received single instruction and information of the parents company. Thus the managers in the dual control types will deals with more information than the managers in the dominant control.

The dual management control arise the problem of coordination and transaction costs that ultimately reduce the value of the venture (Geringer & Hebert, 1989). If one parent company has dominant control, decisions will be less time consuming and easier to make. Indeed, some studies have found that shared or balanced control leads to positive outcomes because of higher levels of trust and mutual forbearance (Beamish & Banks, 1987). In dual management control the TMT members spend more time to collect and analyze the information from parents companies. The information receives is more diverse, complex, ambiguity and conflicting rather than in single management control. This situation makes the TMT in dual management control have cognitive structure more diverse and complex rather than in single management control. Consequently, TMT in dual management control spend more time and energy to discuss and to exchange opinion and perspective more frequent rather than TMT in single management control. Thus, TMT in dual management control experience more cognitive conflict rather than TMT in single management control.

However this research has several limitations: (1) it does not consider the differences between ownership and management control proposed by Yan (1998); (2) I do not involve the concept of role conflict and role ambiguity during analyzing the interaction between TMT and its parent company. Such concept would be important, especially, in analyzing the cognitive structure and process in IEJV's TMT. Operationalization of these variables and the necessity to enter the field are the main activities needed to be elaborated of this research. These activities are important to see the relation among variables based on empirical data. 

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