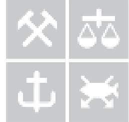

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EGADE Business School del Tecnológico de Monterrey

Bergen/Monterrey, Spring Semester 2016

Understanding Changes in Performance of an Oil-sector Joint Venture in an Unstable Context

The Impact of Control-Collaboration Mechanisms and Inter-firm Diversity Dimensions

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“Master Thesis, Master of Science in Economics and Business Administration, International Business Profile”

This thesis was written as a part of the Double Degree programme between NHH MSc in Economics and Business Administration, Major in International Business, and EGADE Master in Finance. Please note that neither the institution nor the examiners are responsible − through the approval of this thesis − for the theories and methods used, or results and conclusions drawn in this work.

Abstract

The purpose of this thesis is to understand the variations on the performance of an oil-sector International Joint Venture (IJV) when facing changes in political and legal contexts that affected its equity structure. The scope of this study covers Sincor/Petrocedeño, the Venezuelan-based petroleum extraction-and-upgrading-operations joint venture which was established in 1997 with a 47% equity stake for French-based Total, 38% for Venezuelan-based PDVSA and 15% for Norwegian-based Statoil. The study aims to understand the changes that took place after the 2007 Mixed Companies Law enacted by the Venezuelan Government that required PDVSA-majority equity stakes in any Oil-sector joint venture operating in the country.

The objective is to identify how differences in control and collaboration mechanisms and inter-firm diversity dimensions influenced performance changes in the IJV business operation. The specific objectives include i) understanding what were the changes in Sincor/Petrocedeño´s financial, operational and organizational performance after the 2007 Mixed Companies Law was implemented; ii) identifying the role that trust and control mechanisms between partners had in building confidence within the IJV and its influence on performance; iii) assessing the differences in inter-firm diversity dimensions and their effect on confidence building and performance of the IJV.

The results show that the lack of trust and the unbalanced distribution of decision-making power between parent companies fostered an absence of confidence that created an opportunistic behavior, thus lowering IJV performance. Furthermore, the differences in corporate culture, strategic direction and management practices among partners produced such a gap that created distrust, lack of coordination and, hence, lower performance. The worsening conditions occurred at financial, operational and organizational levels and were further influenced by an unstable political and legal context in Venezuela.

Table of Contents

1. Introduction 6
1.1. International Joint Ventures: Creation and Survival 6
1.2. International Joint Ventures in Emerging Economies 7
1.3. Venezuela: General Overview 9
1.4. Oil-sector in Venezuela 14
1.5. The Sincor/Petrocedeño Joint Venture 16
1.6. Research Question 19
1.7. Organization of Chapters 20
2. Theoretical Framework 21
2.1. Confidence Level 21
2.1.1. Trust Building in the JV 22
2.1.2. Control Level Mechanisms 23
2.2. Inter-firm Diversity Dimensions 25
2.2.1. Cultural Differences 25
2.2.2. Strategic Direction 26
2.2.3. Management Practices 28
2.3. IJV Performance 29
2.4. Research Framework 30
3. Methodology 31
3.1. Qualitative Research 31
3.2. Research Method 31
3.3. Data Collection 31
3.4. Data Interpretation 32
4. Results and Findings 34
4.1. Background and Motivations 34
4.2. Confidence Building 38
4.2.1. Trust Level in JV Relationships 39
4.2.2. Control Level in the JV 40
4.3. Inter-firm Diversity Dimensions 42
4.3.1. Cultural Differences of the Partners 42
4.3.2. Strategic Direction of Partner Companies 45

4.3.3. Management Practices of Partner Companies 46
4.4. Performance Outcomes 47
4.4.1. Financial Performance Changes 47
4.4.2. Operational Performance Changes 48
4.4.3. Organizational Performance Changes 49
5. Conclusion 50
6. References 54
Appendix A 60

Table of Figures

Figure 1: Per capita oil exports and barrel price for Venezuela 10
Figure 2: Venezuela´s Income and expenses as a % of GDP 11
Figure 3: Venezuela´s Fiscal income by sector as a % of GDP 11
Figure 4: Composition of Central Government Fiscal Expenditures 12
Figure 5: Average Inflation and Devaluation rates in Venezuela 13
Figure 6: Employment, Unemployment and Informal Jobs rates 13
Figure 7: Research Framework for IJV Performance 30
Figure 8: Hoftede´s National Culture Dimensions for selected countries 42

1. Introduction

1.1. International Joint Ventures: Creation and Survival

International Joint Ventures (IJVs) can be defined as "legally independent entities formed by two or more parent firms from different countries that share equity investments and consequent returns" (Chen et al, 2009). The idea of creating an IJV is that Multinational Companies (MNCs) can partner with local firms in order to collaborate in the production of a product or service.

In an IJV, it is common to observe that the MNC contributes with financial resources, product and process technologies and with brand name/trade mark to the society, whereas the local partner is in charge of managing local regulations, government relationships and provides management of local workforce (Gooderham et al, 2013).

There are several ways how firms can decide to operate and engage in global alliances but International Joint Ventures (IJVs) is one of the most favored ones because they "can be ideal for managing risk in uncertain markets, sharing the cost of large-scale capital investments, and injecting newfound entrepreneurial spirit into maturing businesses" (Bamford et al, 2004). As such, many Multi-National Companies (MNCs) are "using alliances to enter new markets, obtain new skills and share risks and resources" (Beamish and Inkpen, 1997).

One of the key aspects of IJVs relates to the ownership equity structure and the management positions distribution among partners. It is common that the Top management positions are distributed accordingly to the equity stakes that each parent company has in the IJV and the General Manager position is commonly assigned to the parent with the largest equity share. However, the distribution of management positions is agreed upon after thorough negotiations between parent companies where each of them tries to leverage their strengths to gain as many key decision making positions as possible. Furthermore, "typically, members of the management group of IJVs have two agendas: on the one hand the are expected to commit themselves to the success of the IJV, on the other they are delegates of their respective parent" (Gooderham et al, 2013).

Nonetheless, IJVs can become very challenging in their functioning because, "after companies agree to an alliance, there are still multiple parties dealing with disparate interests" (Bamford et

al, 2004). Some of these differences come in the form of “competing or incongruent goals, differences in management style, and in the case of international business, additional complexities associated with differing government policies and business practices” (Beamish and Lupton, 2009).

However, not all IJVs fulfill their initially planned objectives and lifespan, because as many as 70% of the Joint Ventures fail (Lowen and Pope, 2008). A study by IJVs advisory firm Water Street Partners shows that Joint Ventures have an average lifespan of 8.5 years, and 31% of all IJVs are terminated in the first 5 years of operations (Kwicinski, 2016).

The literature on IJVs explains that failure can be defined in different ways and that the most common measure of failure is whether the IJV manages to survive or not and for how long. Nonetheless, failure may also be described by the presence of instability that affects performance of the Joint Venture, considering that instability may include opportunistic behavior, increased transaction costs, acquisitions of the operations by one of the parent companies and the spin-off of the whole IJV to third parties (Park and Russo, 1996).

There are diverse theories that try to explain why IJVs may end up in failure. Literature recognizes that the most common reasons for failure are “1) differences in parent companies objectives for the IJV, 2) different business philosophies or practices, 3) shifts in decision making, 4) disagreements over disposition of earnings and 5) preference for greater integration outside the venture” (Ehrenhaft, 1995). Additionally, a study by Li (2004) suggests that the “primary influences on the instability of IJVs include local government policy changes regarding ownership restrictions on foreign firms; acquisition of knowledge between IJV partners; and changes in competitive threats from local markets”.

1.2. International Joint Ventures in Emerging Economies

In emerging economies it is often the case that local company participation is mandatory in any Joint Venture with foreign companies. The underlying motivations for IJVs formation are not always congruent between parent companies, as not all partners are necessarily “committed to the long-term overall success of the IJV, not least in emerging economies such as China”

(Gooderham et al, 2013). It is often the case that Chinese firms are eager to gain technological advantages that they can ultimately replicate by themselves, whereas MNCs in China are usually there to gain market share and increased revenue streams.

The literature on IJVs shows that legally enforceable contracts are important in any partnership to aid in the resolution of conflicts, however it is also important to understand that in emerging economies, such as China, these mechanisms are questionable because legislation quality and law enforcement are not good (Gooderham et al, 2013). Furthermore, IJVs operations control is primarily influenced by ownership, because the biggest equity holder is usually the one with the largest decision making power. However, the need of litigation is in conflict with effective partner trust and cooperation. It is clear that "institutional deficiency in emerging economies accentuates the distinction between ownership control and management control. Some argue that it is the latter that is critical for exercising influence over IJV operations in the context of emerging economies such as China" (ibid).

In the case of China, Joint Ventures are usually formed between Western private companies and local Chinese companies that are state-owned enterprises (SOEs). It is estimated that 40% of China´s GDP is produced by SOEs and other entities controlled by SOEs. Furthermore, it is expected that the state sector in China will remain a major player in the economy, as the Chinese Communist Party has made it clear that their country is pursuing socialism with Chinese characteristics, placing an important role for state ownership. Additionally, the country has designated a set of industries that are basic to national security and where the government will retain majority control. Moreover, the government of China has declared that it is pursuing a "national champion" strategy for certain industries and, considering current characteristics of the Chinese economy, these national champions are expected to be SOEs. Finally, the government is putting hopes that joint ventures between Chinese SOEs and foreign companies can provide them with more advanced technologies that boost local innovation capabilities and make them less dependable on foreign technologies (Kyle and Szamosszegi, 2011).

These SOEs characteristics were replicated in the case of the Joint Venture under study in this thesis, as PDVSA is 100% owned by the Venezuelan state, operating as an extension of the Ministry of Energy and Petroleum, and the oil-sector laws enacted by the government required mandatory majority equity stakes for the national oil company in oil-sector IJVs in Venezuela.

1.3. Venezuela: General Overview

Venezuela is a country in South America with a large tradition of being one of the biggest oil exporters in the World. During 40 years, spanning between the years 1958 to 1998, it was governed by a duplet of political parties, Accion Democratica (AD) which is a leftist social-democratic party, COPEI, which is a center party and URD, a left-center party. These parties signed an agreement called “The Punto Fijo Pact”, under which they committed themselves to the development of a constitutional democracy with the need for a coordinated national unity government and a common minimum long-term government program for the country. They agreed to these terms to promote progress for the country, after the 10 years of harsh dictatorship that the country experienced under the Pérez Jiménez ruling.

The first 20 years of democracy saw Venezuela rise to become one of the only four Latin American countries accredited by the World Bank as an upper-middle income economy, with a left-center democracy that was a haven in a region plagued by dictatorship and authoritarianism (Corrales, 1999). As explained by Hausman and Rodríguez (2014) “by 1970, Venezuela had become the richest country in Latin America and one of the twenty richest countries in the world, with a per capita GDP higher than Spain, Greece, and Israel and only 13% lower than that of the United Kingdom”. This progress was driven mainly by the growth in private investment, which greatly promoted the construction industry during the 1950s and the manufacturing industry during the 1960s. Alongside, public policies gave place to heavy investments on infrastructure, urban and housing market development and import substitutions. Nonetheless, the Venezuelan economy remained dependent on petroleum exports. (Palacios and Niculescu, 2011)

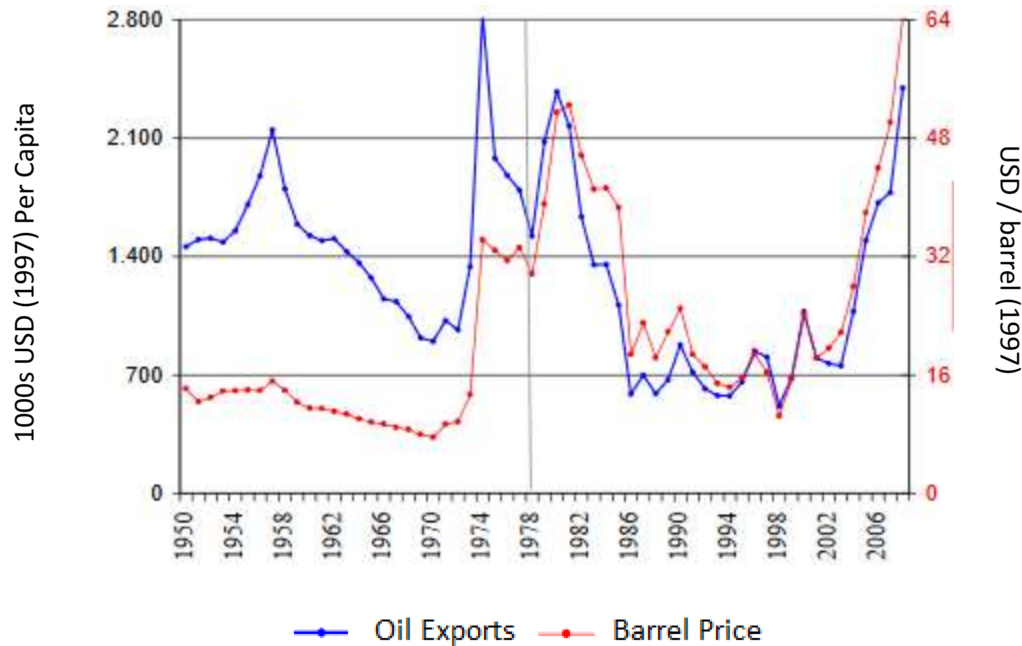

Figure 1: Per capita oil exports and barrel price for Venezuela

Source: Palacios and Niculescu, 2011

As shown in Figure 1, The 1970s Arab oil embargo favored the Venezuelan economy greatly, as oil prices and oil exports triplicated. Conversely, the 1980s saw a sharp drop in oil prices that would eventually lead to a deep economic crisis in Venezuela. We can observe the inception of this crisis in what Figure 2 shows, which is that after this unprecedented income surge, the successive governments started to lose fiscal discipline, as the total fiscal expenditures became greater that the total fiscal income, leading to significant increase in debt (ibid).

Figure 2: Venezuela´s Income and expenses as a % of GDP

Source: Palacios and Niculescu, 2011

The situation became even worse because irresponsible economic policies led to a demise of non-petroleum sectors, producing increased volatility of the fiscal income due to variability of oil prices. Figure 3 shows the behavior of fiscal income for Venezuela, showing the differences by economic sector (ibid).

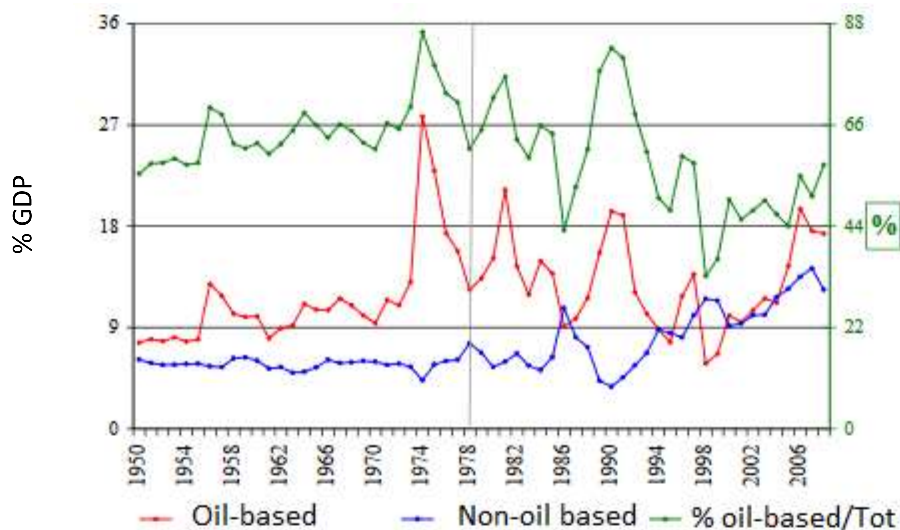

Figure 3: Venezuela´s Fiscal income by sector as a % of GDP

Source: Palacios and Niculescu, 2011

Furthermore, the composition of fiscal expense redistributed. On the one hand, capital expenditure that supported infrastructure and productive sectors started to fall until it reached half the level it had in previous decades. On the other hand, current expenditures increased very rapidly, showing that governments tried to maintain the social and welfare state. Figure 4 shows the composition of the fiscal expenditures for Venezuelan central government (ibid).

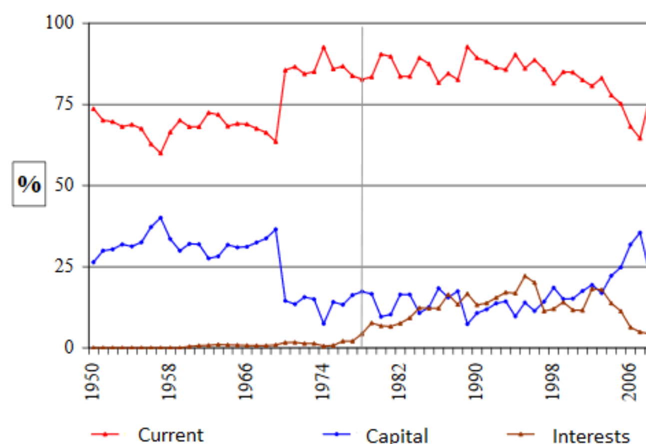

Figure 4: Composition of Central Government Fiscal Expenditures

Source: Palacios and Niculescu, 2011

Although the 1980s fall in petroleum prices forced the Venezuelan governments to perform structural and institutional reforms to the public finances to adapt to the new market reality, the responses were very short-term oriented and inconsistent. The result was a sustained period of public finances volatility accompanied by a massive drop of the GDP. During favorable oil prices periods, governments increased social expenditures, generating permanent commitments that were not sustainable during low oil prices periods. This generated successive adjustment programs of a fiscal nature that brought along maxi-devaluations that affected greatly the poorest sectors, as they had limited protection capabilities to soaring inflation and increased unemployment rates. Figure 5 shows the evolution of inflation and devaluations in Venezuela for the 1950 – 2006 period (ibid).

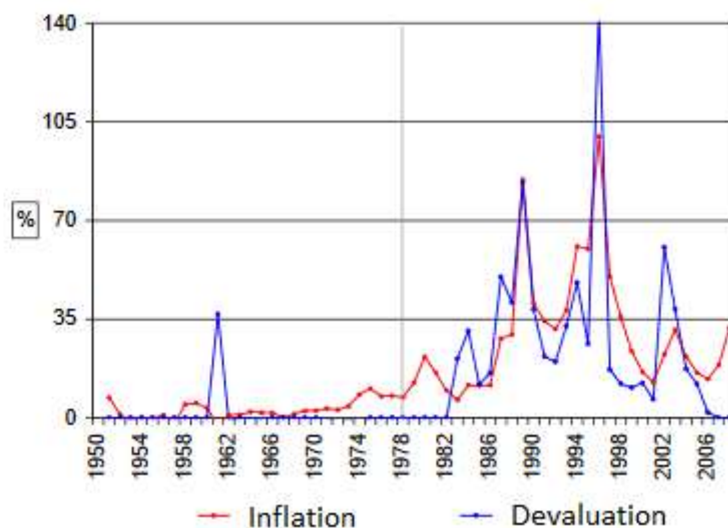

Figure 5: Average Inflation and Devaluation rates in Venezuela

Source: Palacios and Niculescu, 2011

These macroeconomic imbalances affected the accumulation of capital capacity needed to promote investments and growth and also impacted greatly the resource allocation mechanisms, producing adverse effects on productivity and employment generation capabilities. Figure 6 shows unemployment rates for Venezuela in the period 1950 – 2006, observing that after 1978 unemployment rates started to rise and informal employment rates also increased from 31,3% in 1978 to 53% in the year 2000 (ibid).

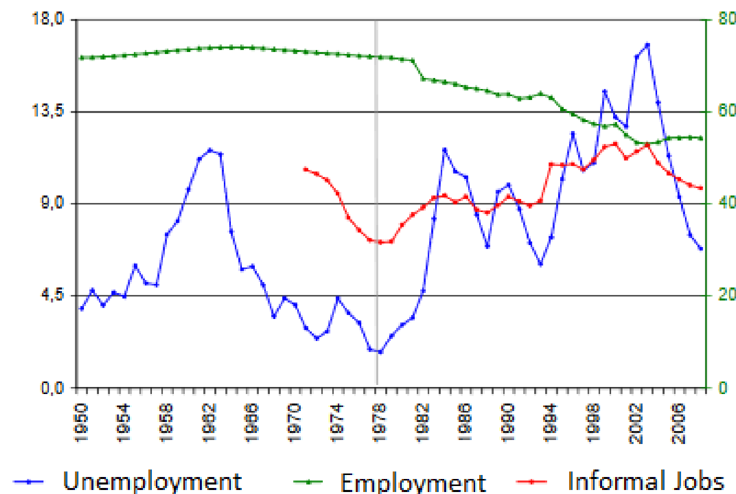

Figure 6: Employment, Unemployment and Informal Jobs rates

Source: Palacios and Niculescu, 2011

The successive series of economic and financial crisis in Venezuela in the 1990s gave way to the collapse of the dual party system. The two parties –AD and COPEI- that ruled the country during 40 years were unable to provide real solutions to the people and this made them increasingly unpopular. In the 1998 presidential elections they were defeated by the leftist and anti-establishment figure of Hugo Chavez. Furthermore, “the electoral results of 1998-1999 demonstrated, not so much the popularity of the new president, which is unquestionably high, but rather the repudiation of traditional parties, which was overwhelming” (Corrales, 1999).

1.4. Oil-sector in Venezuela

The growing globalized world we live in today requires more and more sources of energy to support the needs of industries, agriculture, transport, urbanization and economic development in general. It is estimated that fossil fuels such as oil, coal and gas provide up to 80% of the global world demand for energy (Asif and Muneer, 2007) and, hence, multinational companies (MNCs) operating in the energy sector have an increasing motivation to locate these energy sources and establish local presence to exploit them and satisfy the rapidly increasing demand. According to the International Energy Agency, the total final consumption of energy for the World duplicated in the period 1973 to 2013, rising from 4,667 Million Tonnes of Oil Equivalent (Mtoe) to 9,301 Mtoe.

Furthermore, in one hand oil demand in the World has been historically in an upward trend and it is expected to continue rising because oil is still the most important source of energy, accounting for 40% of total energy consumption. The International Energy Agency estimates that oil consumption increased 64% from the 2,254 Mtoe registered in 1973 to the 3,711 Mtoe registered in 2013. On the other hand, supply of oil requires major investments in developing production fields and refining infrastructure that have long lead times, so it is crucial that oil MNCs have in place a clear strategic plan that allows them coordinate their operations to meet the growing demand.

There are many countries that produce and export petroleum but, according to the OPEC, Venezuela is the country with the largest proven crude oil reserves in the World. By the year 2013, Venezuela had 298.4 billion barrels of proven crude oil reserves, which represented 24.7%

of the total reserves of the World. This means that Venezuela has a strategic importance for oil producers in terms of the potential this country has to meet the needs for increasing oil demand.

However, considering the large investments needed to produce and refine petroleum and also the legal context in many countries, as is the case of Venezuela, that require foreign companies to form strategic alliances with local companies to allow them to operate in the country, a large amount of new oil fields developments are operated through Joint Ventures.

Venezuela's oil business generates about 98% of the country's total export revenue (VCB, 2014), contributes about half of the central government's fiscal income, and is responsible for 24% of the country's GDP (World Bank, 2015). Petróleos de Venezuela S.A. (PDVSA), Venezuela's state-owned petroleum company, oversees the exploration, production, refinement, and export of oil as well as the exploration and production of natural gas.

In the year 1975, the Venezuelan government nationalized the oil industry and PDVSA was established as the national oil company, alongside with some other affiliates that operated in different regions of the country. The company started flourishing and became one of the biggest and most efficient oil state-owned–enterprises until the 1990s, when the country started suffering a deep economic and financial crisis that led its government to implement a program called the Apertura Petrolera (Petroleum Opening). This program aimed to attract foreign capitals to start developing new oil fields and increase productive capacity. The Opening was driven mainly by the fall in petroleum prices, PDVSA's lack of financial muscle and due to pressures from the International Monetary Fund (IMF) to reduce public deficit in the country (Hong, 2010).

The Opening process ended up with 32 operating agreements, 8 exploration-at-risk and profit-sharing agreements, 4 strategic associations and 1 association agreement for production of Orimulsion between PDVSA, its affiliates and private investors. These different legal entities had a wide range of contractual and operational conditions, but the specific case of strategic associations included the "production, extraction, gathering, transport, storage, upgrading and commercialization of hydrocarbons in the Orinoco Belt" (Eljuri and Tejera, 2008).

1.5. The Sincor/Petrocedeño Joint Venture

Statoil is a Norwegian oil company, founded in 1972 which has operations in 37 countries with over 22,000 employees worldwide. The company emphasizes the need for ethical behavior on all employees and it states that safe and efficient operations are their first priority. They are committed to sustainable development, anti-corruption work and to human and employees rights (Statoil webpage, 2015). The company has a very clear governance body and process that is based upon OECD standards and also is regulated by the Norwegian Code of Practice for Corporate Governance.

This company has experience in emerging economies, but the main source of income is from oil production in the North Sea. However, it has operations running through Joint Ventures and subsidiaries in other emerging markets besides Venezuela. Statoil serves countries like Lybia, Nigeria, Angola, Brazil, Tanzania, India and Iran, among others (ibid).

Total is a French oil company originally founded in 1920 under the name Compagnie Francaise des Petroles, and then renamed Total in 1985. It has more than 100,000 employees worldwide and began producing petroleum in the Middle East in 1924, and in 1929 it embarked into refining activities in other countries. The 1960s saw the expansion of the chemicals operations and the 1970s and 1980s were of deep water capacities development in the Mediterranean and emerging countries. Today is has worldwide presence and operates the entire value chain from exploration to commercialization of oil in more than 130 countries, which have made it the 4th largest global oil-and-gas company (Total webpage, 2015).

Their experience in emerging economies is far greater than that of Statoil, as it has had decades of operations in countries like Algeria, Angola, Botswana, Venezuela, Pakistan, India, Indonesia, Iraq, Jordan, Myanmar, among many others. Their governance body is also well developed and focuses on industrial safety, environmental sustainability, respect for employees and ethical behavior. The guiding principle for the governance process is the Corporate Governance Code of Listed Corporations published by French business associations AFEP and MEDEF (ibid).

PDVSA was founded in 1975, from the nationalization of private petroleum companies that functioned in the country since the 1910s and has operations mainly in Venezuela, but also owns a set of petroleum refining assets in Germany and the United States and some equity stakes in Joint Ventures and subsidiaries in other countries like Nicaragua, Cuba, Ecuador, Brazil, Aruba, Uruguay and other Caribbean States (PDVSA webpage, 2015).

This company does not have a clear governance body, but they state that their corporate actions follow the guidelines of the Ministry of Energy and the National Development Plan. The company emphasizes that their actions promote sovereignty of national resources and technological independence to create quality jobs and economic growth that bring about welfare for the Venezuelan people (Birkeland, 2010).

Among the strategic associations created during the 1990s Petroleum Opening in Venezuela, PDVSA agreed with French company Total and the Norwegian company Statoil to form a Joint Venture that received the name Sincor. This was one of the most extensive extra-heavy oil developments in Venezuela's Orinoco Belt. It included a production site, processing facilities and an upgrader. The Joint Venture initiated operations in 1997 and was meant to last for 30 years since the first commercial shipment or 35 years since the execution of the project, the one that occurred first (Hong, 2010). The JV structure gave 47% equity to Total, 38% for PDVSA and 15% for Statoil. (Statoil and Total webpages, 2015).

Incentives were given to foreign companies to participate in these strategic associations, and the statutes allowed a royalty rate of up to 16.5%, but the government established the royalty rate at the 1% minimum for strategic associations. Furthermore, the income tax of 67.7% that usually applied to hydrocarbon enterprises was also lowered to 34% for the companies that participated in these strategic associations (Hong, 2010).

However, the low levels of petroleum crude prices in the late 1990s and the decline in the royalties and income taxes from the agreements reached during the Opening process deteriorated the state treasury and this coincided with the rise to power of late President Hugo Chavez in 1998. The newly-elected President had a very nationalistic and anti-capitalist way of thinking and praised to end with the Opening process because “as long as we do not have the control and

ownership of our resources and economy, there cannot be a true socialist project in our country" (Chavez, 2007).

Soon after President Chavez took office, oil prices started rising due to the 9/11 terrorist attacks and the Afghanistan and Iraq Wars, increasing from the 12 USD/barrel that averaged in the year 1998 to 94 USD/barrel in 2008 (Statista, 2016). The unexpected and sustained high oil prices generated a reduced payback period for the Joint Ventures agreements signed in the 1990s and their expected profitability levels increased greatly. This new market reality set the stage for the new Oil-sector regulations in Venezuela.

In the year 2002, the Organic Hydrocarbons Law (OHL) was revised to end the expansion of the Opening process by means of increasing state control over oil activities, requiring that any Joint Ventures in the oil sector must have a minimum 60% equity by PDVSA or its affiliates. These new entities would be called Mixed Companies and were finally enforced in 2007 by means of the implementation of Decree Law 5200, which would be later called Mixed Companies Law (Eljuri and Tejera, 2008).

The mixed company regime prevented private investor's from having majority equity in oil-sector Joint Ventures and transferred decision-making powers to PDVSA and its affiliates. The operational decisions and most strategic decisions would now be made solely by the simple majority of the shareholders and private investor's opinions would be disregarded. Furthermore, the favorable royalties, income taxes and other incentives would be eliminated, resulting in a lowered profitability for these projects.

The enforcement of the Mixed Companies Law resulted in some companies accepting the negotiations to migrate towards a mixed company regime and some others which did not and escalated their dispute to the International Centre for Settlement of Investment Disputes (ICSID). Between those that accepted to negotiate the terms were Total and Statoil, resulting in the transformation of the Sincor Joint Venture into a new mixed company under the name Petrocedeño, where the capital structure gave PDVSA 60% equity, Total 30.33 % and Statoil 9.67%. The Petrocedeño agreement has a duration of 25 years starting in 2008. Total investments for Sincor (now Petrocedeño) were of approximately USD 5 billion. (Statoil and Total webpages, 2015).

1.6. Research Question

There are many theories that explain the underlying motivations that MNCs have when expanding their operations beyond their national borders. These motivations have an effect on both the operating mode the company chooses to implement and also on the strategy employed to achieve its goals.

Moreover, the establishment of international operations poses new burdens on MNCs. On one hand, country-specific legal context and political environment play a significant role when shaping the nature of the interactions between business partners engaged in International Joint Ventures. On the other hand, the differences in ownership and equity structures have an effect on the control and collaboration mechanisms of the IJV (Li et al, 2009) and the variations on trust-building capabilities of each partner directly affect their partnership relationships (Madhok, 2006; Das & Teng, 1998). Therefore, relationship management mechanisms and IJV governance characteristics define the nature of the interaction between partner companies and, hence, provide a good basis for analyzing the performance of the IJV operations (Beamish and Lupton, 2009).

Furthermore, the differences on inter-firm diversity dimensions are important because they provide the "critical level of analysis that is indispensable in providing a fuller understanding of the factors that may lead to friction and eventual collapse of the Global Strategic Alliance" (Parkhe, 1991). These differences also have a significant effect both on the expected lifespan of the International Joint Venture and on the outcome of its performance measurements.

Based on the literature reviewed, our research provides a structure for the comparative analysis to discuss the findings from the research interviews. The questions that this study aims to answer are:

1) What were the changes in Sincor/Petrocedeño´s financial, operational and organizational performance after the 2007 Mixed Companies Law was implemented?
2) What was the role of trust and control mechanisms in confidence building between IJV partners and explaining its influence on operations performance?

3) What was the effect that differences in inter-firm diversity dimensions had on confidence building and performance of the IJV?

1.7. Organization of Chapters

This work will be organized in the following way. Chapter 2 describes the theoretical foundations that explain the research model on trust and control mechanisms and their relationship with confidence building between parent firms in an IJV. Furthermore, it elucidates on the relationship between confidence and performance on Joint Ventures business operations and also on the link between differences in inter-firm diversity dimensions of parent firms and its effects on operations performance. This chapter finishes with the research model that was used for the thesis. Chapter 3 presents the interview-based qualitative research methodology that was used for this study and explains how the information was gathered and interpreted. Chapter 4 presents the results and findings of the interviews to former JV employees from the 3 parent companies in light of the research model that was developed using the theoretical framework previously explained. Finally, Chapter 5 summarizes the conclusions drawn from the research conducted and explores lessons learned from the case study.

2. Theoretical Framework

IJV performance literature has focused on understanding what needs to be measured, how it should be done and what are criteria that performance indicators should have to draw valid conclusions. Authors like Porter (1985), Geringer and Hebert (1991), Ariño (2003), Lunnan and Haugland (2008) and Katsikeas et al (2002) have published papers and research on this topic.

Furthermore, others have focused on understanding the link between trust and control mechanisms and how they affect performance of the Joint Venture. The work of Das and Teng (1998), Li et al (2009), Curral and Inkpen (2002), Madhok (1995) and Beamish and Lupton (2009) focuses on explaining how trust and control of the Joint Venture must be balanced in order to have a well-functioning operating alliance.

As per the differences between the partner companies and their effects on performance of the IJV, the work of Parkhe (1991), Hitt et al (2000), Sirmon and Lane (2004) and Pothukuchi et al (2002) try to explain how differences in corporate cultures, strategic direction and management practices can affect the relationship between parent companies in a IJV, thus influencing the way they manage JV operations which results in performance changes.

2.1. Confidence Level

As explained by Das and Teng (1998), IJVs are "inter-firm cooperative arrangements aimed at achieving the strategic objectives of the partners… [and] satisfactory cooperation is vital to their success". Furthermore, they explain that confidence is nothing more than the perception of a firm that its partners will work after mutually compatible interests in the alliance, instead of just acting opportunistically. However, there needs to be both trust building capacities and control mechanisms in place, because they are mutually complementary and help to build confidence between partners in any Joint Venture.

Nevertheless, it is also important to clearly explain the difference between confidence and trust in this context. Das and Teng (1998) explain that trust is related to expectations about the motives of the trustee, whereas confidence explains the perceived level that a partner will behave

in a desirable manner. Simply said, trust refers to expectations of possible motives and confidence expresses the certainty of the existence of cooperative behaviors.

The argument here is that an International Joint Venture where parent companies fail to develop a relationship that is built in confidence has greater chances of failing than one where confidence levels are high. This is so because the lack of confidence is the root of opportunistic behavior, making each company to look upon its own interests, rather than the common interests of the Joint Venture. Consequently, the whole complementarity of skills, knowledge and resources between the local partner and the MNCs that triggered the partnership will no longer be achieved and dissolution of the Joint Venture will be the ultimate result.

2.1.1. Trust Building in the JV

Das and Teng (1998) explain that trust building in strategic alliances can be explained through 4 different mechanisms. First is the ability to take risks, because trust and risk taking are reciprocal concepts, as trust leads to risk taking, and risk taking leads to bigger trust because the expected behavior materializes. Those firms who dare to take risks in their Joint Venture relationships are more likely to form a bond of trust with their partners, as they are seen as more reliable and collaborative.

Second, is the principle of equity preservation, which means that the firm that contributes the most to the alliance should be the one getting the most out of it. This mechanism explains that a basic component of trust building in Joint Venture relationships is that all partners acknowledge that the benefits they make out of the business operations will be proportional to the amount of equity they have in the Joint Venture. Conversely, a partner relationship where the firm with lower equity gets the most benefits automatically creates an impression of unfairness and fails to create a bond of trust between partners.

Third, communication between partners is a crucial need for trust building because it helps solving the problems that will necessarily arise in any relationship, creates credibility in partners and fosters continued interaction. It is quite palpable that in business, as in life, the lack of communication creates a toxic atmosphere of information withholding that generates resentment among partners and, furthermore, leads to poor decision making processes.

Fourth, inter-firm adaptation is also needed to build trust, as the ability to become flexible and modify own behavior in favor of the mutual goals fosters trust. This can be further explained by the fact that those firms that have too-rigid internal processes and fail to adapt their behaviors to changing context dynamics have a harder time understanding what needs to be done in a timely fashion to optimize Joint Venture performance, creating a sense of doubt on partner companies about their willingness and ability to collaborate.

Trust boosts performance of the JV because it builds an effective network structure and also because it mobilizes actors involved in the JV operations. This means that trust provides the social connections needed to gain greater access to others and also motivates them to share the resources and skills needed to better coordinate operations of the Joint Venture (McEvily and Zaheer, 2005).

Furthermore, a stronger social structure within the JV creates the links needed to conduct alliance work and mobilization results in actors openly sharing confidential information necessary to cooperate in planning and solving problems. Trust also enables partners to create relational governance mechanisms that improve performance by means of lower transaction costs and increased transaction value. According to Dyer and Chu (2003), lower transaction costs come from the elimination of nonproductive monitoring and safeguarding activities. McEvily et al (2003) explain that transaction value is increased because trust mobilizes partners to leverage better the information shared, as it is seen as valid and reliable.

2.1.2. Control Level Mechanisms

Control level is also important in building confidence in partners, because "firms tend to be more confident about partner cooperation when they feel that they have and adequate level of control over their partners". Alliance control is important for any Joint Venture, as it is relevant to building confidence in partner cooperation. Partner control can be understood as the process of regulation that makes partner's pursuit of mutually beneficial interests more predictable. Control in Joint Ventures is enforced both through hierarchical and ownership dynamics, i.e. by

leveraging authority to give orders and make sure they are carried out, but also by means of the decision power given by the level of equity a partner holds in the alliance (Das and Teng, 1998).

According to Das and Teng (1998) there are three mechanisms used to enforce control in Joint Ventures. First, is the process of joint goal setting, as it requires partner interaction and allows reaching consensus. This means that objectives and decisions are not made unilaterally, but instead require the participation of all the partner firms in a negotiation process that looks after the best interest of the Joint Venture. Consensus also means that parent companies will have lower incentives to deviate from agreed-upon objectives, as their viewpoints will already be included in the goals established.

Second, the authors explain that control can be exercised and enforced through structural specifications. These are the formal means of control that the companies implement and they include reports, rules and regulations. When put in place and effectively used, these formal means of control ensure desirable behavior and deter opportunistic behavior because all partner firms have a clear understanding of the mechanisms and parameters that are used to measure and give follow-up to Joint Venture business operations

Third, control of the Joint Venture is enforced through cultural blending between parent firms. This mechanism refers to the ability of matching parent firms' organizational cultures at the IJV level and not at the HQ level. Adaptation of organizational cultures at the JV level ensures the formation of shared values that make employees process information in similar fashions, resulting in increased behavioral predictability.

In IJVs between companies from developed countries and developing countries, research suggests that shared control is more likely to lead to superior performance, rather than domination from one partner (Beamish, 1988). This is so because shared control brings along synergies and cooperation between partners, as the developed country partners tend to provide better technology and financial resources and local partners tend to provide better management of the local unfamiliar and dynamic context (Child and Yan, 2003). Furthermore, ownership and control structure also influences partners´ incentives and ability to collaborate with each other, which in turn affects trust (Dhanaraj and Beamish, 2004; Mjoen and Tallman, 1997) and, as explained before, trust has a direct link with JV performance.

2.2. Inter-firm Diversity Dimensions

Parkhe (1991) suggests that there are many factors related to the intrinsic characteristics of the organizations that affect the performance of a Joint Venture. These factors are called inter-firm diversity dimensions and our research scope has focused on understanding the differences in cultures, strategic direction and management practices between the partners in a JV, to explain how these differences affect the ongoing reciprocal learning process, the trust building capacities between partners and, ultimately, the performance of the JV.

2.2.1. Cultural Differences

Corporate culture includes all the values and guiding principles that explain the behavior of a particular organization. These characteristics are embedded in the company and interrelated to the partner´s national culture also. Authors like Harrigan (1988) argue that a true homogeneity in corporate cultures is more important to ensure the success of the JV than the symmetry in national cultures of the parent companies. However, national culture also plays a significant role in shaping relationships within a Joint Venture because they relate to the basic country-specific characteristics of the people that comprise an organization.

Differences in national cultures have been widely studied by Hofstede in his research among 116,000 IBM employees to understand the basic dimensions that give shape to national cultures. Gooderham et al, 2013 explain that Hofstede found that there are 4 dimensions that describe national cultures differences.

First is Power Distance, which measures the level of acceptance that a society has for inequality in institutions and organizations. Basically, it explains that higher power distance depicts a society or an organization where hierarchy is of the upmost importance and challenging superiors is not accepted. Conversely, countries with lower power distance present a more democratic and open organization where subordinates and bosses can interact on the same level (ibid).

Second is Uncertainty Avoidance. This concept refers to the level of predictability and security that employees need in order to do their work. The higher the level of uncertainty avoidance

within a society, the more likely that formal rules and controls need to be put in place to maintain order. Furthermore, responsibilities and tasks need to be clearly specified to avoid stress at work (ibid).

Third, is the factor of Individualism-Collectivism, which explains the approach that people have to relationship with others. In societies that are highly individualistic people put their personal lives before the wellbeing of the collectivity and they also put more importance in distinguishing personal life from work (ibid).

Finally, the fourth dimension of national culture is the Masculinity-Femininity level. The more masculine a society is, the more emphasis is put on competitiveness and the look for material rewards. Feminine societies are described by peaceful relationships, were service to the others provides the drive to a better quality of life (ibid).

The differences between corporate cultures can be represented by the approach each company has to power and control in managing the JV and also by the temporal orientation of each partner. Companies that are more similar in the way they enforce control within the Joint Venture and on the temporary mindset they apply to their decision making processes are more likely to collaborate and leverage their complementary skills and resources to achieve better business operations performance. Additionally, contrasts between these corporate culture dimensions can create barriers to effective cooperation, thus affecting performance of the JV operation. Effective cooperation comes from partners who learn the ideologies and values of its counterpart (Parkhe, 1991).

2.2.2. Strategic Direction

Strategic direction refers to the course of action that an organization has set to achieve its goals and objectives. Strategy also determines the actions that a company can perform, affecting organizational learning because it sets the boundaries for decision-making processes and also provides the context in which the company perceives and interprets changes in its environment, thus impacting on inter-firm relationships and JV performance (Daft and Weick, 1984). As explained by Harrigan (1985), "asymmetries in the speed with which parent firms want to exploit an opportunity, the direction in which they want to move, or in other strategic matters are destabilizing [to JVs]".

When companies have differing strategic directions it means that either the temporal horizon they have set to achieve their goals is different, or that the motivation they had for building a Joint Venture relationship is completely apart from that of its partners or that their view on how the future of the relationship should develop does not match those of its partners. However, there will always be differences in strategic direction, the issue at hand is how parent firms can adapt their vision to complement that of their partners and engage in a relationship that brings about achievement of both collective and individual objectives.

Strategic fit between partners is also closely related to the posture that every firm assumes, as explained by Miles and Snow (1978), firms can be classified in four strategic profiles. First, there are the prospectors, which are innovative organizations that are characterized by a growth-oriented strategy that may lead them to take risks to search for new markets that provide either a larger market share within an existing market, or an entire new market where they can leverage growth opportunities for their operations.

The second group is the defenders, which are companies focusing on protecting current markets, maintaining stable growth and serving current customers. These are firms that are comfortable with doing business as usual and see changes in their status quo as threats to their operational performance.

The third profile is the analyzers, which are companies who maintain current markets and current customer satisfaction, but engage in limited innovation actions after thoughtfully analyzing existing conditions and possible outcomes of the implementation of changes. However, these changes are calculated to the detail and they usually do not represent a threat for their operations.

Finally, the fourth group is the reactors. These companies have no clear strategy, react to changes in their environments and drift with events. Simply put, these kinds of companies lack the vision and the ability to understand and predict the future behaviors of market patterns, and they will never anticipate to a changing context. Instead, their actions will lack coordination and timely execution and will be a response to changes in market conditions that were not able to predict.

2.2.3. Management Practices

Management practices refer to the way in which an organization manages its employees and their work activities to ensure smooth operations. As explained by Parkhe (1991), these practices are determined by the management style of the organization (authoritarian or participatory), the levels of delegation of responsibilities (high or low), the nature of the decision-making processes (centralized or decentralized) and the level of reliance on formal control mechanisms (high or low). Diversity in the management practices of parent firms on a JV is usually negatively related to performance of the operations and can be eased by the establishment of unitary management processes and structures.

Authoritarian organizations are characterized by a high level of hierarchy, where relationships between supervisors and subordinates are very rigid. Subordinates are expected to obey orders without hesitation and are not encouraged to neither challenge their supervisors nor contribute with their insights on possible alternative courses of action.

Delegation refers to the level of empowerment that employees at the base of the organization are given. Companies with high levels of delegation provide a set of boundaries and rules under which tactical and operational decisions can be made by the executioner of the tasks. On the contrary, firms with low delegation levels require all decisions to be made by managers that are held fully accountable for their subordinates' actions.

The level of centralization or decentralization refers to how subsidiaries of a company are managed. In very centralized companies, subsidiaries have a dependency relationship to the Headquarter (HQ), as they are not able to act on their own, but instead have a strict control on how on they operate and report to the HQ.

Reliance on formal control mechanisms explains whether a firm has informal ways of operating based on word of mouth or individual previous experience or, on the contrary, if there are written rules, procedures and norms that regulate execution, reporting and decision making in daily business operations

2.3. IJV Performance

First of all, measuring performance in a Joint Venture is a difficult task because there needs to be a combination of subjective and objective measures in order to gather the entire picture and get a clear understanding of the situation. However, both kinds of measures tend to have flaws and limitations in the availability of the information and the validity of the conclusions that can be drawn from them.

Frequently, it is the case that objective measures such as financial information and operational indicators are hard to obtain, as Joint Ventures operators rarely report them separately. More often than not, this information is reported in the consolidated corporate data of the parent companies and, additionally, financial indicators may fail to reflect the extent to which a Joint Venture has fulfilled its short and long term goals. Hence, Geringer and Hebert (1991), suggest that subjective measures may be a good way to understand whether a JV has achieved its goals and, moreover, they propose that there is a positive correlation between subjective and objective performance measures of IJVs, which makes subjective measures a good proxy of the objective performance of the IJV.

Our research model tries to understand performance of the IJV based on 3 different elements, which are financial performance, operational performance and organizational performance.

The element of financial performance aims to explain the variations in Joint Venture financial indicators before and after context conditions changed. As explained by Neely (2002), financial performance can be measured via indicators such as revenues, costs, profits and also the evolution of the cashflow and the return on investments (ROI).

Revenues refer to the financial income that a company has, whether it is by means of increasing or decreasing proceeds or savings. Costs can be defined as the expenditures that the company has to make in order to ensure efficient operations and typically an increase of costs is related to a worsening performance of the operations. Profits explain the difference between revenues and costs and, the larger it is, the more benefits that parent companies are obtaining from the Joint Venture. Cashflow explains the capacity that a firm has to self-fund its operations, and it is expected to be a positive number to express healthy JV operations. Finally, ROI represents the

benefits that the firm is obtaining upon the investments it is making. The higher the ROI, the more likely that a project will be executed.

The operational performance measurements are based upon subjective indicators that rely on Porter´s (1985) value chain model. This model explains the differences between core activities and basic activities in any company and how the performance of these areas reflects the performance of the company as a whole. Our model analyzed operational performance for logistics and operations, marketing, sales, client service, infrastructure, sourcing, human resources and technology areas.

Finally, organizational performance refers to what Beamish (1984), Killing (1983) and Schaan (1983) propose as perceptual-measures of an IJV performance. This dimension uses subjective measures to understand the extent to which the IJV and the parent companies have fulfilled their goals and met the expectations originally created.

2.4. Research Framework

Based on the literature on International Joint Ventures that was reviewed, we have designed a research framework that was applied to the case under study. The framework showed in Figure 7 shows the relationship between trust and control in building confidence among partners in an International Joint Venture. Furthermore, it creates a link between differences in inter-firm diversity dimensions and confidence building, which has an ultimate effect on performance outcomes of the alliance.

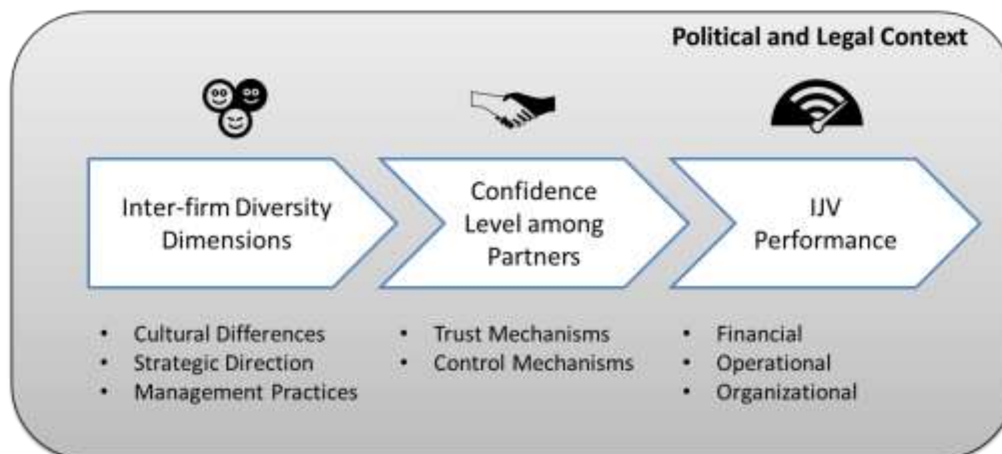

Figure 7: Research Framework for IJV Performance

3. Methodology

3.1. Qualitative Research

Qualitative research is based on observations and non-numeric data, such as words, images and video clips. This research type is often used for data collection, e.g. in interviews for analysis that aims at gaining a comprehensive understanding of a specific phenomenon (Saunders et al., 2012). The qualitative research method seeks to explain the underlying motivations and reasons, while quantitative research pursues to generalize results based on a large sample. Furthermore, this type of research provides insights into problem statements which can be used for quantitative study later on by developing hypotheses based on the insights and findings. The sample of a qualitative study is normally a small number of well-selected respondents (Woods, 2006).

3.2. Research Method

In order to answer the research question this research used semi-structured interviews as a data source for the empirical research part. The semi-structured interviews fit well to the research model because they allow the interviewee to talk freely and give in-depth insights into control mechanisms and company performance. Also, an interview guide has been formulated, based on the literature reviewed and the research model, which will be attached in the appendix.

The proposed research model takes into consideration the different subjective and objective measures of IJV performance. The inferential analysis of this thesis discusses the phenomena in accordance with the research model: the impact of inter-firm diversity dimensions and confidence levels on IJV performance.

3.3. Data Collection

Based on the composition of the IJV, the research is based on interviews with a total of 6 people, gathered from at least one person who worked in each of the 3 companies involved in the IJV, i.e. Statoil, Total and PDVSA. The interviewees were chosen based on two elements: 1) the

length of their employment in the companies and 2) the profile of their functions. The interviewees were former employees of the parent companies who were assigned the Joint Ventures during the transitional times, so as to gather a better understanding of what were their personal experiences to provide better insights. Additionally, the interviews focused on personnel working at all levels of the organizations, from mid-management to C-level executives to broaden the base of respondents and mitigate latent biases.

All interviewee's identities will be kept anonymous, although their backgrounds will be mentioned to get an understanding of their experience and their possible role on inter-firm relationships. As a limitation, it is worth to mention that the amount of interviewees differs from one parent company to the other and also that none of them is a native English speaker, so there might be some interpretation and context biases lost in the translation.

Company	**Position**	**Experience**
Statoil	Projects Senior Manager	10 years
Statoil	Process Principal Consultant	7 years
Statoil	CFO	10 years
Total	Production Manager	5 years
PDVSA	Contracts Manager	5 years
PDVSA	Production Engineer	1 year

3.4. Data Interpretation

All of the answers from the interviews will be interpreted on two dimensions: first, questions regarding the confidence level and differences in inter-firm dimension will be analyzed under a descriptive method. Second, all the answers from the performance section of the questionnaire will be analyzed using a 1 to 5 scale that tries to measure changes in performance outcomes from much worse to much better and will be presented as the average results from all respondents answers.

The findings will be presented based upon the research framework previously mentioned, starting with some background on the changes that occurred in the strategic alliance after the

Mixed Companies Law was enacted and the Joint Venture transformed from Sincor to become Petrocedeño. Furthermore, we will continue explaining what were the motivations each company had to accept the modified equity structure and also providing context about the role that politics started playing in the operations of the business. Following, the results of the interviews will be summarized to provide an understanding of the differences in trust and control mechanisms used in the alliance and also the diversities found in parent companies inter-firm dimensions. Finally, the results of performance variables will be shown to clarify what were the outcomes of the migration process.

4. Results and Findings

4.1. Background and Motivations

In the year 2007 the Migration Law was sanctioned by the National Assembly of Venezuela and this required that all strategic associations in the oil sector that were operating in the country should now have a mandatory majority of the national oil company –PDVSA- or its affiliates in order to continue operating.

In the case of the Sincor JV, the initial equity structure assigned 47%, 38% and 15% to Total, PDVSA and Statoil, respectively. At the time of the project conceptualization the legal, economic and investment environment were ideal for the investment. Royalties, taxes and other incentives were given so that, in spite of the low oil prices at the time, the project was still very appealing. Furthermore, the payout was planned for 7-8 years, but the rise in oil prices in the 2000s made that payback period shorter, approximately 4 years. The initial investment was proportional to the equity structure of the JV and corresponded to approximately USD 5 billion.

Initially, Sincor was a separate legal entity and functioned as the operator of the JV, having complete autonomy over their operations and financial decisions. Sincor was a jointly operated company from its inception, where every partner had rights and duties based on their equity shares. This covered ownership control, operational control, corporate governance structures and financial benefits splitting. However, Total, having the majority of the shares, had a bigger saying than the other partner companies in operating the JV, but still there was a steering committee where the directors of all partners made the most important decisions. These decisions were based on the recommendations from a set of sub-committees in several areas (finance, HR, production, technical, etc.) where operational rulings were made with the participation and input of all the partners of the JV. All of these committees had rules and directives that regulated the decisions they made and their functioning in general. Statoil was in charge of the drilling activities, Total was in charge of the exploration, production and upgrading activities and PDVSA played a supporter role in other areas.

PDVSA, being a minority shareholder, was very respectful of its partners and served a passive role as an enforcer of the initial deals signed to prevent any deviations from contracts, which the

private companies often tried to influence (such as expansion projects, deviations from design capacities, changing production mix to challenge PDVSA´s strategy, etc). Nonetheless, the formal governance mechanisms were respected by all partners and the operation was very smooth.

The role of Statoil was that of an advisor, providing services in technology implementations for drilling activities, it was also in charge of the financing of the operations and handled the marketing and commercialization activities of the finished product. Total, being the majority holder, was in charge of the operations of the Joint Venture from crude extraction to upgrading activities to produce light-oil products.

These governance mechanisms worked very well until the time of the 2002 Oil Strike in Venezuela, where the vast majority of the management of PDVSA was fired from the company, Venezuelan oil production fell to almost zero, and the government income fell sharply. Under this new scenario, PDVSA started looking the other way and put its priority in increasing rapidly its oil production, which resulted in Sincor to start producing extra-heavy oil (which is less profitable but easier to produce) in a regular basis.

Governance mechanisms started to lose credibility and quick decisions were made under huge pressure. The Venezuelan government had the need to improve its finances and the private partners saw an opportunity to reduce the payout period, so measures were taken to ensure rapid and massive production, which would negatively affect the productivity and lifespan of planned oil wells.

It was a bold move from PDVSA, because it took advantage of its private partner´s knowledge and capacities to recompose its finances and then started blaming them for the negative effects of this production strategy. After a couple of years, when the situation was better, the national government started accusing private companies of wrongdoing and taking advantage of national resources (due to the low royalties and income taxes scheme) and this set the stage for the 2007 Mixed Companies law.

After the migration process was completed, the new equity structure gave PDVSA 60%, Total 30.33% and Statoil 9.67% of the shares. There were 3 major changes: first the rule of Public

Companies Law over its operations, which rendered invalid former procedures and rules applicable to the JV; second, the JV would now be under direct control of PDVSA, who would absorb the operator employees, designate the majority of managers and directors and control operational decisions; and third, politics would now play a major role in strategic and operational decisions, as PDVSA was an overly politicized company.

PDVSA assuming the majority of the shares resulted in the JV becoming a public company under Venezuelan laws. This invalidated all previous operational policies that Sincor had in place, and now the Hiring Law and Public Companies Bidding Law would be the ones guiding operations. New internal policies would have to be drafted to accommodate to the new legal context ruling the business. These public companies law governed aspects such as the hiring policies, financial planning and budgeting, sources of financing, procurement and bidding policies among others. This new legal and procedural framework was so bureaucratic that it became a serious restriction for the company and limited its agility to cope with the natural dynamics of the oil industry, ultimately affecting its performance.

The migration towards Mixed Company was conceptually a replication of the incorporated companies´ model that already operated in the Orinoco Oil Belt, where there was a similar governance and decision committee structure, but the corresponding amount of people assigned to these positions changed accordingly with the new equity structure. However, PDVSA became the ruling partner and named most of the top managers, but the private companies remained in control of a few key positions such as finance and marketing. Additionally, PDVSA absorbed the employees of the Joint Venture that were not assigned by Total or Statoil. Considering that PDVSA was an overly-politicized company, professionals from private companies had little motivations to work for PDVSA. As such, many employees quit their jobs, leaving the remaining ones with excess workloads and new managers, named by PDVSA, who had little or no experience for the responsibilities they assumed. The company entered into a survival mode, making it crucial to keep operations going, whereas safety, processes and rules started being disregarded. Improvisation became the common rule in the company.

Furthermore, the overly-politicized way of doing things of PDVSA started infecting the JV and formal control mechanisms started losing applicability, looking good in papers but being completely disregarded in practice. Most decisions came from high ranking officials in the

government and nobody dared to question the feasibility of their implementation. The Petrocedeño JV became a very hierarchical organization where minority partners had no rights to question PDVSA´s decisions. All those who dared to question orders were immediately exposed to being disavowed.

Nonetheless, the response from interviewees about the motivations of their respective employer on why did they stay in Venezuela and accepted the equity structure changes shows that all of them, no matter if they worked for PDVSA, Total or Statoil agreed that the Venezuelan State had the sovereign right to retake majority ownership of its resources. However, they also agreed that the migration towards the mixed company regime was not done in the best way.

All of the respondents argued that the project had been extremely profitable and that, in spite of the predicted increase in project associated risks, economic profitability would still be assured because it was in the best interest of all the parent companies to maximize value out of this business. Furthermore, Statoil employees commented that they secured control over key departments in the JV operations and that they saw it as a strategic interest to maintain their presence in the country with the largest crude reserves in the World.

The interviewee from Total mentioned that his employer had other interests in Venezuela besides the Sincor/Petrocedeño JV, and that they would not risk these interests by challenging PDVSA. Also Total was at the time developing a new oil sands project in Canada, which required extraction technology similar to that used in Petrocedeño and they needed more time to develop the technical expertise to do this on their own. PDVSA employees mentioned that this was a planned move from PDVSA to increase its profits from having a larger share portion and also that it was a political move, because the vast amount of employees absorbed by PDVSA had better compensation schemes, which would most likely make them support President Chavez´s regime.

However, they all mentioned that the way these changes were made was far from ideal because politics entered the business, destructing the professionalization of the company and also, there was no transition period in which operations were transferred progressively from private control to national control, but instead it was abrupt and this limited the ability of the new staff to gain the necessary expertise to correctly operate the business. Furthermore, they comment that many

contracts were violated, and operational conditions deteriorated so badly that many international oil companies fled the country as a result. In the long run this ended up being bad for the country as those big investors commenced to take their capitals away. These behaviors showed that PDVSA and the Venezuelan government had a very short/medium term vision and lacked the long term vision to understand the effects on the biggest and most important industry in the country.

4.2. Confidence Building

As explained in the literature research, confidence refers to the certainty of the existence of cooperative behaviors between partners in a JV. Confidence is built upon the capacity that these partners have to develop trust in their relationships and also on the control mechanisms that are put in place to ensure that mutually beneficial interests are pursued, instead of having partners that behave in an opportunistic way.

When asked to describe the relationships between parent firms 4 out of 6 respondents said they had poor confidence that partners would behave in a collaborative manner, and the other 2 respondents said they were neutral. Both Total and Statoil employees argue that the relationship between these two companies is very sound and professional, as both companies have a similar understanding of how this JV should be operated and what are the ultimate goals they pursued by engaging in this association.

However, interviewees from Statoil explained that Total tended to act in a more opportunistic way sometimes, probably because of their bigger interests with PDVSA in other joint projects in Venezuela, which made them become overly flexible to PDVSA´s improvised way of doing things. Statoil is seen as the most collaborative of the three companies and PDVSA as the most opportunistic of the three, always looking after its own interest, making decisions alone and pushing its agenda with complete disregard to partners´ points of view.

The relationship of both private partners with PDVSA has become ambiguous because, even though they still have formal control mechanisms (Board meetings and operational committees), they seldom meet and their decisions are not enforced. It is more common for minority partners to use an influencing approach and try to convince PDVSA to pursue a better course of action when they consider that decisions are not in the best interest of the JV. In practice, PDVSA sees

its partners as technical advisors and financial strategic partners but not as operators of the business. In this sense, it became a very opportunistic relationship because PDVSA only requested assistance when needed, and hardly ever involved Statoil and Total in the operation of the business.

4.2.1. Trust Level in JV Relationships

Inquiries to interviewees about their level of trust in partner companies showed that 5 out of 6 respondents said they had poor trust and only 1 said he had average trust in partners. This is a reflection of how the trust building mechanisms –risk taking, equity preservation, communication and inter-firm adaptation– have evolved in the JV after the migration process.

All the respondents from the private companies said their companies took risks to promote trust. They argue that the simple fact of accepting changes to already signed contracts and carrying on with the JV, in spite of the elevated risks from new assessment results is a sign of this. However, it is also argued by the interviewees that their companies assumed a more conservative position after the migration and decreased investments to the minimum necessary to keep operations running in a safe and efficient way. Their main interest was having oversight capacities to ensure they had the information available to exercise their influencer role and give advices to PDVSA when needed. Risks for PDVSA were minimal, as it took over operations and imposed its will over their partners.

The 6 interviewees agreed that equity preservation was partial, because private companies received a generous compensation for their percentage of shares rendered and financial profits were split according to the ownership structure of the JV. However, the poor operational management executed by PDVSA did not maximize the economic benefits of the JV. In terms of decision powers, equity was not preserved; PDVSA became the controlling entity and imposed its will over the partners, over-reaching in its decisions and violating established operational procedures by disregarding the inputs from Statoil and Total. This made the relationship unbalanced and unfair.

Although communication between partners in the Petrocedeño JV certainly does exist, it is not effective. It cannot be said that there is information asymmetry, as all companies have access to

all the information about the JV operations but several respondents said that PDVSA hardly ever delivered information requested by its partners in a timely and complete way. It is common for PDVSA to withhold information and only notify its partners after a decision has been made. Additionally, communication was mostly one way because PDVSA was the one making all the decisions and disregarding partner´s opinions. Interviewees argued that Total and Statoil had a more transparent and open communication with their partners, but interaction was very difficult sometimes because PDVSA employees lacked the knowledge and skills needed to discuss operational matters.

Inter-firm adaptation between partners was also partial. Although Statoil and Total are companies with strong respect for contracts enforcement and internal codes of conduct, both tried to accommodate their behavior to be flexible and find solutions together with partners, balways trying to ensure that operations carry on in a safe and responsible way. These two companies pick only the battles they can win and these are mainly focused on issues that are of material impact to the operations. Deviations from contracts and procedures are always notified and proper objections are raised, but PDVSA often made decisions by itself because it sees contracts more like guidelines.

4.2.2. Control Level in the JV

In any JV, control is manifested through the level of hierarchy in the company and also by the power that ownership gives to parent companies. In the case of the Petrocedeño JV, when interviewees were asked about the importance of hierarchical authority in the operation of the business, 3 of them answered that decision making is very hierarchical and the other 3 said it is important. Most of them express that decisions came straight from either top Venezuelan government officials or senior directors in PDVSA and orders needed to be carried out in a military style, with little or no objections allowed.

Similarly, when interviewees were inquired about the importance of ownership in controlling decisions in the JV, 2 of the respondents said it was very important and the other 4 answered it was important. Once again, all of them stated that after the migration occurred, the JV became in practice an affiliate of PDVSA and this company completely controlled decision-making

processes at all levels of the organization, disregarding any input from partner companies unless specifically asked for.

Furthermore, control in JV operations is characterized by: i) the capacity that partners have to design, implement and follow-up goals and objectives in a joint way; ii) structural specifications refer to the existence of internal rules and procedures to guide decision-making and also the flexibility that these mechanisms have to cope with changing environments; and iii) cultural blending, which refers to the process of adaptation and internalization of control measures implemented by partner companies.

In the Petrocedeño JV, there is a goal setting process that is very biased because all the goals are driven by the business plan of PDVSA as a holding. Their global strategic goals are more important than those of the JV. This turns in the minority partner´s interest being sacrificed, because goals are not negotiated but rather come straight from PDVSA´s top management. Furthermore, goals tend to be specific for every area of the JV and they are integrated into PDVSA internal reports. However, the follow-up of those goals is very poor and the implementation of the corrective actions needed hardly ever occurs. In the first 3 years after the migration, goal setting and supervision process was very negligent but afterwards –due to the poor performance- the partners were involved once again to design and implement short, medium and long term goals. Nonetheless, goals continue to be focused on the short term and in producing as much as possible with little for productivity, efficiency and lifespan of the production and upgrading factilities.

Regarding structural formal control mechanisms, all respondents explained that, although internal reports, procedures and contract clauses existed, they were not really implemented and followed-up. Only Total and Statoil focus on deviations and violations of these mechanisms but their influence power is very limited, as PDVSA frequently chooses to overlook them. Private partners put more attention in violations of any clause that has critical impact on the JV and these are typically deviations from the contract statutes, violations of the regular cash and revenues streams and also violations of the integrated value chain of the JV. In these cases, their position is much stricter, and enforcement mechanisms are activated until agreements are reached.

The vast majority of the interviewees explained that they hardly ever had any formal training on how to analyze, interpret and adapt their control measures with those of the partner companies. Only employees from Statoil reported that the little training that has been provided was based more on how to better communicate, how to effectively structure messages to increase influencing capacity and how to deal with frustration from the unfair operational decision-making process in the JV.

4.3. Inter-firm Diversity Dimensions

The inter-firm diversity dimensions refer to the differences in cultures, strategic direction and management practices between the partner companies in a JV. The wider the gap between these dimensions across firms, the more likely that trust and performance of the JV are deteriorated.

4.3.1. Cultural Differences of the Partners

We will start by showing the differences in Hofstede´s national culture dimensions for the three countries of origin of the partner companies in the Sincor/Petrocedeño Joint Venture. Figure 8 shows the results for Norway, Venezuela and France.

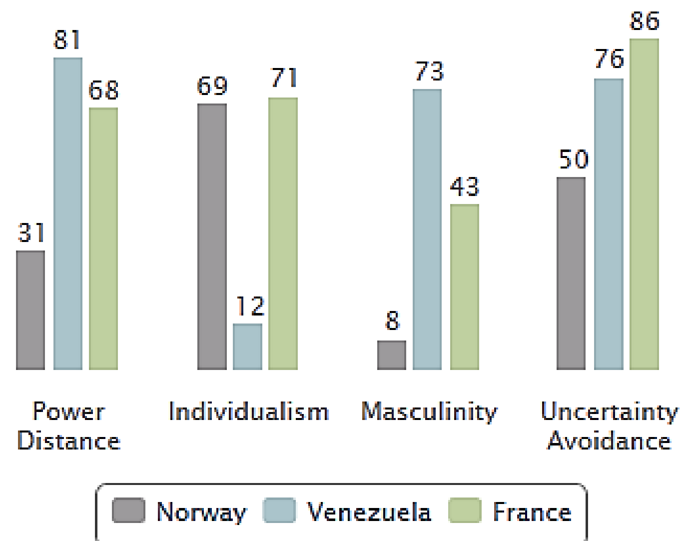

Figure 8: Hoftede´s National Culture Dimensions for selected countries

Source: Hofstede, 2001

Regarding power distance, we can observe that Norway scores the least of the three countries, meaning that Norwegians are very independent and dislike hierarchies, as empowering and decentralization is the norm among them. Both France and Venezuela have a much higher score on this dimension, signifying that hierarchies are more important for nationals of these countries and decision making is more centralized and order-based (Hofstede, 2001).

On individualism Norway and France have a very similar score, which is much higher than that of Venezuela. This means that the European countries´ nationals are more prone to distinguishing between private life and work life, they regard privacy as very important and they communicate in a very explicit way. The Venezuelans are more collective thinkers, focusing on the many and not on the few with a tacit communication style (ibid).

As per the results on the masculinity dimension, the score of the three countries is very different. Norway has the lowest score, which implies that they look for dialogue, supportive management styles and cooperation between partners rather than competition. Venezuela has the highest score, meaning that nationals of this country are driven mainly by competition and success. French nationals score in the middle of the previous two, indicating that they look for a balance between competition and collaboration (ibid).

When it comes to uncertainty avoidance, Norway has a neutral score and Venezuela and France have a higher score. This means that Norwegians have not shown like or dislike for uncertainty, but Venezuelans and French have an aversion for uncertainty and they prefer rules, procedures and norms that regulate and structure work conditions (ibid).

When interviewees were asked about their perception of how different was the corporate culture of their companies in contrast to the corporate culture of their partner companies, 4 of them said that they were very different, and the other 2 said there were different. Although corporate cultures of Statoil were regarded as somewhat different (mainly due to the flexibility of Total with PDVSA´s action to avoid hurting other interests), all of the respondents from these companies stated that they also had several things in common, such as their respect for employees, their ethical behavior, the rule of internal control mechanisms and the search for safety in their operations. However, when it comes PDVSA, corporate cultures of both Statoil and Total are completely different. Most respondents argued that PDVSA employees do not

follow a code of conduct or ethics, that employee harassment due to political inclinations is very common and also that respect for procedures does not exist, resulting in a careless attitude towards employee safety and environmental responsibility.

Statoil claims that their corporate values make it a company that is courageous, open, caring and hands-on. Courage is reached by the stimulation of new ideas, also by identifying opportunities and challenging accepted truths while understanding and managing risks. Openness is guided by being truthful and acting with integrity, while working together in a communicative way and sharing experiences to promote diversity in an ethical framework. The hands-on attitude is based on timely delivery of promises, developing expertise, customer orientation, focus on value-adding activities and showing attention to detail in their dedication. Caring refers to safety of employees, reducing negative impact on the environment, behave accordingly to the law and demonstrating social responsibility (Statoil Webpage, 2015).

Total has three guiding values, which are respect, responsibility and exemplary conduct. Respect is based on upholding internationally recognized Human Rights standards. Responsibility refers to committing to the highest levels of safety and security in their operations to ensure protection of health and the environment. Exemplary conduct is based on compliance of integrity standards and is enforced by preventing corruption, fraud and anti-competitive practices (Total webpage, 2015).

PDVSA claims that the foundations of their operating model are: commitment to the genuine owners of Venezuela’s petroleum which is the people; also alignment and shared vision to Venezuelan State institutions; high national sovereignty awareness; upgrading of the natural resource; simplified structure aiming at efficiency and productivity; transparent accountability; new worker-company-society relation; decentralization and good governance. (PDVSA webpage, 2015).

4.3.2. Strategic Direction of Partner Companies

The interviews inquiries about the temporal orientation of the partner companies resulted in employees from Statoil and Total claiming that their companies had long term orientation and looked upon strategic objectives 10 to 20 years ahead. They all agreed that their objectives were to maximize value of the JV while ensuring that project lifespan was respected through safe and efficient operations.

However, PDVSA employees said that their company had a very short term strategic orientation, which seeks to maximize value of the JV and ensure revenue streams in the upcoming 1 or 2 years. They did have a vision of where the company wanted the JV to be in the medium and long term but their actions spoke otherwise, because continuous deterioration of the oil fields, productive capacity and processing facilities was the result of the improvisation in business operations.

These results are also seen in the response obtained to the question about the level of match between partners´ strategic directions. 5 of the 6 respondents said that they saw little or no match at all between the strategic directions of PDVSA and those of the private partners, and the other interviewee said there was a neutral match in this dimension. Once again, the poor quality of operational decision made by PDVSA and its lack of future vision that results in deteriorating effects on productive capacity was the main reason of the poor match in strategic direction.

Interviewees were questioned on the type of strategy that their companies applied in the Petrocedeño JV, and both private companies seemed to be in a defender mode. The increased risks associated to this operation made them enter a survival mode and try to protect and hold their current customer base and their current markets by means of trying to implement controls to ensure production levels and limiting investments and innovation to almost none. PDVSA is clearly a reactor, because it has no clear strategic vision and it reacts to specific conditions of the business environment in a slow and centralized fashion.

4.3.3. Management Practices of Partner Companies

Management practices refer to: i) type of management, either authoritarian or participatory; ii) also if delegation levels are high or low is important; iii) the level of centralization or decentralization of the company; iv) the level of reliance on formal internal control mechanisms; and v) the level of autonomy between the local subsidiary and the HQ.

Statoil was described by the interviewees as being a relatively participatory company, where organizational structures are more horizontal and delegations levels are high. Decisions are made by the senior management based on inputs from operational and management levels, and then delegated for their implementation back to the lower levels. The company is relatively decentralized, as subsidiaries are relatively autonomous to freely organize their operations but do have strict supervision from the HQ. This company has a high level of reliance on formal control mechanisms and every aspect of the operation of the business are ruled by internal manuals and enforced at all levels of the organization.

Total is a company where participation of low levels employees in decision making is lower, having a certain degree of authoritarianisms in its processes. Delegation levels are high, also enforced from top to bottom of the pyramid, but it is a more centralized company where subsidiaries have very low level of autonomy and receive very clear and precise instructions and follow-up from the HQ. This company also has a medium-high level of reliance on formal internal control mechanisms, as operations are strictly regulated and supervised by procedural rules.

In the case of PDVSA the situation is quite different from its partner companies. The Venezuelan company is completely authoritarian, as every decision comes from either top company management or from the Energy Ministry and they cannot be challenged. Everything is imposed from the top, and delegation levels are very low. This is a completely centralized company that gives no autonomy whatsoever to any of its subsidiaries. The level of reliance on formal control mechanisms is low because rules and procedures are taken as reference guides but most often than not they are disregarded making improvisation and acting upon particular interests the common practice in daily operations.

4.4. Performance Outcomes

Performance measures are divided into 3 categories, which are financial, operational and organizational performance. The results are based on subjective perceptions of interviewees about the differences in performance of the JV when comparing variables before and after the migration from Sincor to Petrocedeño. All performance measures were evaluated on a comparative scale of 1 to 5, where the lower the score means that performance has resulted in worst performance and a higher score means that performance has improved significantly. Results are stated as the average of the responses of all interviewees on every variable.

4.4.1. Financial Performance Changes

Financial performance of the JV deteriorated greatly after the migration towards the mixed company regime. Revenues fell and costs increased, resulting in lower profit generation and problems with cash flow. Similarly, return on investment (ROI) also fell sharply.

Revenues suffered a great lost and became worse, receiving a 1.5 score in our scale. The fall in revenues comes from the fall in production of crude oil, which fell from 180, 000 barrels per day to almost 130,000 barrels per day and also the deterioration of the upgrader resulted in an increase in the production of lower quality and lower margins crudes.

Costs changes received a score of 1.0, which tells us that they suffered a major increase, mainly due to the exponential increase in personnel absorbed by the JV and the loss in production efficiency which increased maintenance, production delay and downtime of the upgrader. It is estimated that the cost of production increased from USD 6 per barrel to almost USD 8 per barrel.

The increase in costs and the decrease of revenues affected greatly profit generation. Our interviewees answers gave a 1.7 score to profits changes, which tells us that they were worse off after the JV migration from Sincor to Petrocedeño. Additionally, new laws sanctioned in the country required companies to set aside a percentage of their profits for social responsibility activities, further decreasing the performance of this variable. Similarly, cash flow received a score of 2.0, which means that it was worse off after the migration towards the mixed company

regime. The return on investment (ROI), received a score of 1.7, which means it suffered changes that made its performance become worse off, probable because of the reduction of investments made, the decreased lifespan of the project from 35 to 25 years and the increased WACC due to the worsening risks and economic conditions of the country.

4.4.2. Operational Performance Changes

The performance of the operations of the JV also deteriorated greatly, as all measures of performance along the value chain dimensions reported a worse performance when compared to their situation before the migration.

Logistics and operations received a score of 1.2, which tells the story that this was the variable with the worst comparative performance. Improvisation, poor judgment, lack of experience and knowledge and disregard to procedures resulted in an increase in operational downtime, reduced efficiency and a greater amount of accidents and even some fatalities.

Marketing, sales and customer service received a score of 3, meaning that these areas of the company remained with a similar performance before and after the migration. The interviewees explain that the reason underlying this results is that Statoil and Total were able to keep their designated managers and, hence, decision authority over these departments, ensuring that decisions and actions taken were consistent with the need to maximize value.

Infrastructure received a score of 2.0, which explains that the general situation of the facilities of the JV deteriorated to a certain degree. The reasons for this can be found in the lack of proper maintenance execution and also because of the poor operational conditions of the upgrading and extraction processes due to the lack of knowledge and experience by PDVSA personnel.

Sourcing activities worsened off and received a score of 2.0. This was mainly due to the deterioration of economic conditions in the country that created scarcity of supplies with good quality but also due to PDVSA´s wrongdoing, since providers were now designated under lighter scrutiny, often based on their political ties or personal connections with PDVSA employees.

Human Resources were also greatly affected by the migration, receiving a score of 1.2. This was due to PDVSA´s policies of absorbing massive amounts of employees, also because of the strategy of lowering salaries to force experienced professionals from Sincor to quit their jobs,

leaving managers with little experience in key positions and remaining employees with excess workloads that deteriorated organizational environment.

Finally, Technology received a score of 2.2, which means that this dimension of the operational performance was also worse off after the migration. The reason for this was mainly the lack of investments in technology in the JV and the lack of training to technical personnel on best available practices and continuous improvement.

4.4.3. Organizational Performance Changes

This dimension is measured based on the level of satisfaction that interviewees express on the performance of the organization, also on their satisfaction with goals achievements for the JV and their satisfaction with the spillovers that the JV has had over its shareholders.

When asked about their satisfaction with the performance of the JV, the average score received from the interviewees was 1.5. This tells the story that they are very dissatisfied with the outcome of the operations performance after the migration towards the mixed company regime. The respondents argue that the way the company is being operated and the deterioration of the production output and process efficiency is the main reason for this.

A similar situation occurs when interviewees were asked about their level of satisfaction with the achievement of the strategic goals of the JV. The average score for this variable was 1.8, telling us that respondents were dissatisfied with the changes that happened. The reasons underlying this disappointment are the lack of a clear goal design, implementation and follow up process but also the short-term vision that PDVSA was enforcing, putting at risk the future of the JV.

Lastly, the level of satisfaction of the interviewees with the JV spillovers on its shareholders received a score of 1.2, showing that discontent is very strong. The reasons for this assessment can be found in the negative impacts in employees´ satisfaction from a worsened working environment, the generalized discontent of providers -that now have a 6 to 8 months repayment period- and the increased number of accidents, fatalities and environmental impacts due to poor operational measures.

5. Conclusion

Based on the results from the interviews and the literature research, we can draw several conclusions about the study of the impact of confidence and inter-firm diversity dimensions over the changes in the performance of the Sincor/Petrocedeño Joint Venture after the migration process towards the oil-sector mixed company regime in Venezuela in the year 2008.

On one hand, performance was greatly affected by the lack of confidence between Total, Statoil and PDVSA. The relationship between PDVSA and its private partners became completely opportunistic, as Statoil and Total had little certainty about the likelihood of PDVSA behaving in a collaborative way. Opportunistic behavior resulted in every company pursuing its own interests and incomplete leverage of synergies, worsening the performance of the JV. The poor confidence between the companies was a consequence of the lack of trust between them and also of the unbalanced power and control level in the JV. Low levels of trust created doubtful expectations about partner motives and the unbalanced levels of control limited coordination between them.

Trust is built upon 4 elements: risk taking, equity preservation, communication between companies and inter-firm adaptation. After the migration from Sincor to Petrocedeño, the Joint Venture partners limited greatly the risks they took, fairness and equity was only partially preserved, the communication between companies was deficient and the flexibility to adapt to the changing environment was lost.

The private partners limited the risks taken in the JV because they were already jeopardizing immense amounts of assets and resources by accepting the reduction in their equity structure and the renegotiation of already signed contracts. As explained very well by one of the interviewees, Total and Statoil entered safe mode and no more risks would be taken, resulting in a wary attitude towards PDVSA and a lower level of trust.

Additionally, equity and fairness was only partially preserved in the JV because only financial benefits were split accordingly with the new shareholding structure but power in decision-making processes was not kept equal and private partners had little control or influence over the operation of the business. It is clear that unfairness in partner relationships does not foster trust between them.

The poor level of communication also limits trust because partners tend to have bad expectations about their counterparts motivations in daily interactions. Also, the fact that PDVSA withheld information to its counterparts produced information asymmetry which unbalanced the terrain and generated lower levels of trust. Moreover, the deficient communication between partners was also affected by the differences in expertise and knowledge between PDVSA managers and private partners' managers, which further deteriorated interaction between companies.

Inter-firm adaptation in the case of the Petrocedeño JV was only partial because, although private companies were prone flexibility and accept PDVSA´s improvisation, these companies tended to have very strict contracts and procedures enforcing mechanisms that clash against their partner´s overly-flexible way of handling contractual relationships. In the long run this creates frictions and lower levels of trust.

All of these factors led to poor information sharing between partners, which in turn limited the capacity they had to coordinate activities, ultimately resulting in higher transaction costs due to the proliferation of nonproductive safeguarding and monitoring activities and also in lower transaction value because the deficiencies in information sharing did not allow partners to fully leverage data to optimize operational decisions. With higher transaction costs and lower transaction value, performance is naturally expected to worsen as it did in this case.

On the other hand, the gaps in inter-firm diversity dimensions of corporate culture, strategic direction and management practices between the partner companies in the JV was also an influencing factor that deteriorated performance of the operations.

The corporate cultures of Total and Statoil, although not exactly the same, were more similar in comparison to the corporate culture of PDVSA. Both private companies put special focus on acting in a professional way that fosters transparency and ethical behavior, while maintaining strong internal control mechanisms that ensure they deliver on their promises with special focus on operational safety and care for the environment. However, PDVSA has other guiding values more focused on becoming the instrument of the Venezuelan government to ensure people´s happiness and to develop social and political relationships with its workers and communities. The very clear differences on the approach to work that these companies had created barriers to

effective coordination of activities, as the ultimate goal of the JV was not the same for all of them. This lack of activities coordination was a trigger for lower performance.

Similarly, the strategic direction of the private companies had no match with that of PDVSA. Both Statoil and Total had a clear long term vision of the future of the JV and their efforts were focused on maximizing value out of this business in the long run, by ensuring that operational conditions could be kept at a stable level across the lifespan of the project. Also, these two companies strategy in Venezuela was that of a defender, where they limited innovation and investments but tried to maintain their current clients and current markets. However, PDVSA was lacking a clear strategic direction, putting all its efforts on maximizing value of the JV only in the short term, with an approach that looked to run operations until they failed and only then caring about proper maintenance and working conditions. PDVSA´s strategy was that of a reactor, because it had no clear strategic goals and its actions came as a consequence of the changes in its environment. These completely different strategic orientation between companies created friction between them due to the lack of a common vision on what the future of the business should be, affecting organizational learning, decision-making processes and relationships between firms because each company interpreted its context in a very different way. No common strategy led to opportunistic behavior, lower trust and poorer performance.

Lastly, the differences in management practices between partners were also important and they ended in the lack of a unitary management process and structure for the JV, as every company had a different approach on how the business should be administered that fostered opportunistic behavior and created difficulty in operations coordination, thus lowering performance of the JV. The fact that Statoil and Total were very horizontal organizations, with high delegation and relatively decentralized decision-making processes was completely opposed to the situation of PDVSA, which is a completely authoritarian company that gives no delegation rights to its employees and has all planning processes centralized.

There was such a wide gap in the corporate culture, strategic direction and management practices between the partner companies in the Petrocedeño JV that fostered distrust among them and, as previously explained, lower trust creates a lower performance problem for JVs.

It is clear that the deterioration of performance on this JV was a consequence of the differences that parent companies had on their internal dimensions and was also affected by the lack of trust

between them and the unbalanced decision-making power that existed. Adding to the situation the unstable political, legal and economical context of Venezuela, there is a recipe for disaster. Fortunately, as explained by one of the interviewees, an oil business well managed is a fantastic business, but an oil business poorly managed is still a good business. This is the reason why the Petrocedeño JV is still up and running, because even with all the inefficiencies it might have, oil prices are still several times the cost of production, thus ensuring profitability even in price scenarios.

Considering the results and findings derived from this research study, we can gather several lessons learned that aim to provide general recommendations on possible solutions to similar situations of changes in equity structures for oil-sector IJVs with state-owned enterprises in emerging economies.

First, trust between partners is a crucial need if the IJV is going to thrive. Effective development of trust brings along certainty about partners´ intentions and commitment to the success of the Joint Venture. It is important to understand that a JV is a win-win collaboration mechanism and that, although specific motives to invest in the alliance may differ from one parent firm to another, they all need to find a common ground for both individual and collective objectives.

Second, unless control mechanisms are put in place and used, there will be frictions between partners that affect trust and confidence. It is not enough to have formal rules and procedures, but it is of the utmost importance that these mechanisms are jointly developed -through negotiations and consensus that incorporate all partners' expectations on how the operations should be run- and also that they are implemented. Clear control mechanisms leave little room for uncertainty and, hence, allow for better coordination between parent companies.

The combination of trust between partners and clear control mechanisms foster confidence building and suppress the need for the opportunistic behavior that lowers IJV performance. Furthermore, it is important that a certain level of adaptation occurs at the JV level between organizational cultures and that both strategic direction and management practices have similarities among partners. IJVs whose parent companies that fail to adapt to their contexts are most likely to suffer higher failures rates. Performance is, hence, greatly affected by confidence between partners and also by the flexibility they have to adapt to each other.

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Appendix A

Interview Questionnaire

Background Information

1. What is (was) your position at the time of the migration into mixed companies?
2. How many years have you worked in the company?
3. Can you give me some background on the IJV? (Partners, Equity structure, Governance, Initial motivations, what was expected, etc.)
4. How do you feel about the migration into Mixed Company?
5. What changes took place in 2007? (HR, Processes, Market, Industry, Legal)
6. Why did your company accept (propose) the changes derived from the Mixed Companies Law?
7. What is the role law and politics in your day-to-day interaction with partner companies?

Confidence Building

1. How would you define your relationship with your IJV partners (opportunistic or collaborative)?
2. How certain can you be that your partners will behave in a cooperative manner? (1 to 5)

No Confidence	Poor Confidence	Neutral	Somewhat Confident	Very Confident

3. **Trust Level:**
    a. Do you trust your partners? (1 to 5)

No Trust	Poor Trust	Average Trust	Good Trust	Excellent Trust

    b. How autonomous is the IJV? (1 to 5)

No Autonomy	Poor Autonomy	Average Autonomy	Good Autonomy	Excellent Autonomy

    c. Trust building:
        i. **Risk Taking:** have you taken risks in order to develop trust with your partners? (E.g. big investments, compromising resources, trial and error, etc.)
        ii. **Equity Preservation:** do you feel that your relationship with your partners is fair and equal? (i.e. profits and decision power are distributed accordingly to your equity)
        iii. **Communication:** how is the communication with your partners in the IJV? Do you share information on a regular basis? (information asymmetry or symmetry)

iv. **Interfirm Adaptation:** how flexible has your company been in adapting to changes in the environment? How flexible have the other partners been? How do you see contracts? (Guidelines vs legally binding).

4. **Control Level:**
   a. Types of Control:
      i. How important are hierarchical mechanisms (authority to give orders and measure results) in daily operations? (1 to 5).

Non important	Somewhat important	Nor important non unimportant	Important	Very Important

      ii. How important are ownership mechanisms in controlling IJV operations? (the partner with the most equity controls the decisions) (1 to 5).

Non important	Somewhat important	Nor important non unimportant	Important	Very Important

   b. Control Mechanisms:
      i. **Goal Setting:** has your company established goals for measuring performance? What about for the IJV? Are they specific or general goals? Who designs the goals (each company separately, all coordinated, major equity holder imposes, etc.)? Are they more long term than short term goals?
      ii. **Structural specifications:** are there formal internal control mechanisms (reports, written notice of departures from agreements, accounting examination, cost and quality control, arbitration clauses and lawsuit provisions)? How rigid are these controls? (Inflexible or do you have bargaining power to make changes)?
      iii. **Cultural blending:** do you have training and socialization sessions to adapt to your partners organizational culture?

Interfirm Diversity Dimensions:

1. **Corporate Culture:**
   a. How different is your company's organizational culture to that of your partner companies? (1 to 5).

Very Different	Somewhat Different	Neutral	Similar	Very Similar

   b. Your company's orientation is Long Term? (1 to 5)

Strongly Disagree	Somewhat Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

c. What are the differences between your corporate culture and that of your partner companies?

d. How effective is your interaction with partner companies?

2. Strategic Direction:

a. Is there a match between your company's strategic direction and that of your partner firms? (1 to 5)

Strongly Disagree	Somewhat Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

b. What are the differences?

c. Type of Strategy: which one of these would describe better your company's strategy?

	Market Approach	**Environment**	**Organizational Characteristics**
Prospector	Innovative, find new markets. Grow. Take risks	Dynamic, growing	Creative, innovative, flexible, decentralized
Defender	Protect and hold current market	Stable	Tight control, centralized, production efficiency, manage via rules
Analyzer	Maintain current market plus moderate innovation	Slow or moderate change	Tight control and flexibility in some new areas, efficient production, creativity
Reactor	No clear strategy, React to specific conditions	Growing or slow	Centralized, dependent on current needs, slow

3. Management Practices and Organizational Structure:

a. The management of the organization is more authoritarian than participatory?

Strongly Disagree	Somewhat Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

b. The delegations levels are high?

Strongly Disagree	Somewhat Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

c. The decision making process is centralized or decentralized?

Very Decentralized	Somewhat Decentralized	Neutral	Somewhat Centralized	Very Centralized

d. Does your company rely heavily on formal control and planning systems?

Strongly Disagree	Somewhat Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

e. What is the level of autonomy between your subsidiary and the HQ?

No Autonomy	Poor Autonomy	Average Autonomy	Autonomy Trust	Excellent Autonomy

Performance Measures:

1. **Financial:** how have these financial indicators changed after the 2007 Mixed Companies Law?

Indicator	**Much Worse**	**Worse**	**Same**	**Better**	**Much Better**
Revenues					
Costs					
Profits					
Cash Flow					
ROI					

2. **Operational:** how have these operational dimensions changed after the 2007 Mixed Companies Law? (Little comment on the reasons for each one).

Dimension	**Much Worse**	**Worse**	**Same**	**Better**	**Much Better**
Logistics & Operations					
Marketing & Sales					
Client Service					
Infrastructure					
Sourcing					
HR					
Technology					

3. **Organizational Effectiveness:**

i. How satisfied are you with the performance of the IJV?

Very Dissatisfied	Somewhat Dissatisfied	Neutral	Satisfied	Very Satisfied

ii. How satisfied are you with the fulfillment of the strategic goals of the IJV?

Very Dissatisfied	Somewhat Dissatisfied	Neutral	Satisfied	Very Satisfied

iii. How satisfied are you with the IJV spillovers on your stakeholders?

Very Dissatisfied	Somewhat Dissatisfied	Neutral	Satisfied	Very Satisfied

Future Prospects:

1. What is your future perspective for this Joint Venture in the short, medium and long term?
   i. Internal Dimensions: HR, Technology, organizational elements
   ii. External Dimensions: Market, industry, legal & government elements

2. What will be the role of confidence in partners in future performance?