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## Article

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## **Perceptions of MNC management: Local parent sensemaking in international joint venture process\***

*Ed Clark, Anna Soulsby\*\**

*The article focuses on the way in which multinational corporations (MNCs) and local parent firms interact in the construction and operation of international joint ventures (IJVs). It seeks to contribute to the theory of IJV process in two ways. First, it constructs a preliminary integrative theoretical framework, which draws attention to the roles of initial venture conditions, of political, learning and relationship processes and parental perceptions of efficiency and equity. Second, it infers theoretical lessons from a case study of a German-Czech IJV. The empirical findings highlight the role of critical events that stimulate sensemaking processes, which in turn politicise the IJV and create different dynamic patterns.*

*Der vorliegende Artikel konzentriert sich auf die Art und Weise der Interaktionen zwischen multinationalen Unternehmen (MNU) und lokalen Mutterfirmen beim Aufbau und Betrieb von internationalen Joint-Ventures (IJVs). Er trägt in zweifacher Hinsicht zur Theorie von IJV bei: Erstens wird ein vorläufiger integrativer Rahmen entwickelt, der besonderen Wert legt auf die Rolle der Ausgangslage, der vielfältigen Prozesse sowie den Auffassungen der Mutterfirma bezüglich Effizienz und Gleichheit. Zweitens werden theoretische Erkenntnisse abgeleitet aus einer Fallstudie eines deutsch-tschechischen IJV. Die empirischen Ergebnisse verdeutlichen die Rolle kritischer Ereignisse, welche die Sinnfindungsprozesse stimulieren, was wiederum das IJV politisiert und verschiedene dynamische Muster hervorbringt.*

*Keywords: Czech Republic, international joint ventures, sensemaking, venture dynamics, process theory, multi-national corporation*

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## Introduction

Research on international joint ventures (IJVs) has expanded in pace with their rapid proliferation (Yan, 1998) as organisational forms and their significance for multinational corporations (MNCs) as internationalising strategies (Parkhe 1996; Si/Bruton 1999; Guillén 2003). One consistent theme has concerned the IJV's apparent predisposition towards instability, under-performance and dissolution, though this influential view of their 'intrinsic vulnerability' (Das/Teng 2000) has been challenged both theoretically (Yan 1998) and empirically (Gomes-Casseres 1987). This debate has directed attention towards the relationships between the IJV's 'transitional' (Porter 1990) structural characteristics, internal processes (Yan/Gray 1994) and outcomes, which, according to some researchers, vary with contextual conditions and characteristics (Lecraw 1984; Beamish 1985; Meyer 2001; Child 2002; Uhlenbruck et al. 2003). Tied to this argument is the observation that, under certain conditions, head office management may treat IJVs as merely a stage in the structural expansion of the MNC, en route to the establishment of a fully owned and controlled subsidiary (Gomes-Casseres 1987; Blodgett 1992; Child 2002). How MNC and local parents negotiate and operate IJVs over time is therefore very much concerned with the theory of MNC management.

In this context, this article aims to review, evaluate and refine the theory of IJV process and dynamics and this involves two tasks. The first task is to examine the main concepts and theories that have contributed to the current state of knowledge, which involves evaluating contributions from two distinct theoretical and methodological standpoints. The dominant 'structural' approach seeks causal explanation by using multivariate methods to test empirical models that relate structural conditions with performance outcomes. Later IJV research has compensated for a critical omission in the structural view (Parkhe 1993; Inkpen 2001) by adopting inductive qualitative methods to study the role of internal processes in mediating structures and outcomes (Ring/Van de Ven 1994; Doz 1996; Ariño/de la Torre 1998). Our work contributes primarily to this latter 'processual' stream, but also brings together structural and processual factors in explaining dynamic IJV patterns.

The second task is to draw on an intensive case study of an IJV between a German multinational corporation (MNC) and a Czech former state-owned enterprise (SOE) to investigate in detail how interparental processes contribute to the internal dynamic. IJV processes are presented through the eyes of the Czech parent's managers, whose perceptions, interpretations and judgements influence their contributions to venture governance. Seeing the IJV through a local managerial lens is unusual within an international business literature mostly inclined towards the perspective of Western MNCs. From inductive analysis of this case, we introduce new concepts into the theoretical framework to improve its explanatory power. Among other points, we argue that the role of

partners' expectations of the venture and their resultant sensemaking activities have special theoretical significance.

For the purposes of this article, we define a 'joint venture' as a legally separate organisational entity created by two or more independent (parent) firms, which aim to pursue a particular business project. It is international when the headquarters of at least one of the parent firms (usually an MNC) is based outside the joint venture organisation's country of operation (Geringer/Hebert 1989). This article follows conventions in the literature by considering the structure and process of IJVs through the interparental relationship between the MNC and the local firm.

The article continues as follows. In the next section, we critically review the IJV literature and deduce a preliminary theoretical framework to explain IJV process as interparental dynamics. The third section discusses the empirical research underlying the article, by explaining its background, methodological position, data collection and data analysis processes. Following that, we outline the case study findings, which are the basis, in the next section, for analytical generalisation and extension of the theoretical framework already discussed. The article concludes by summarising contributions and implications for further research.

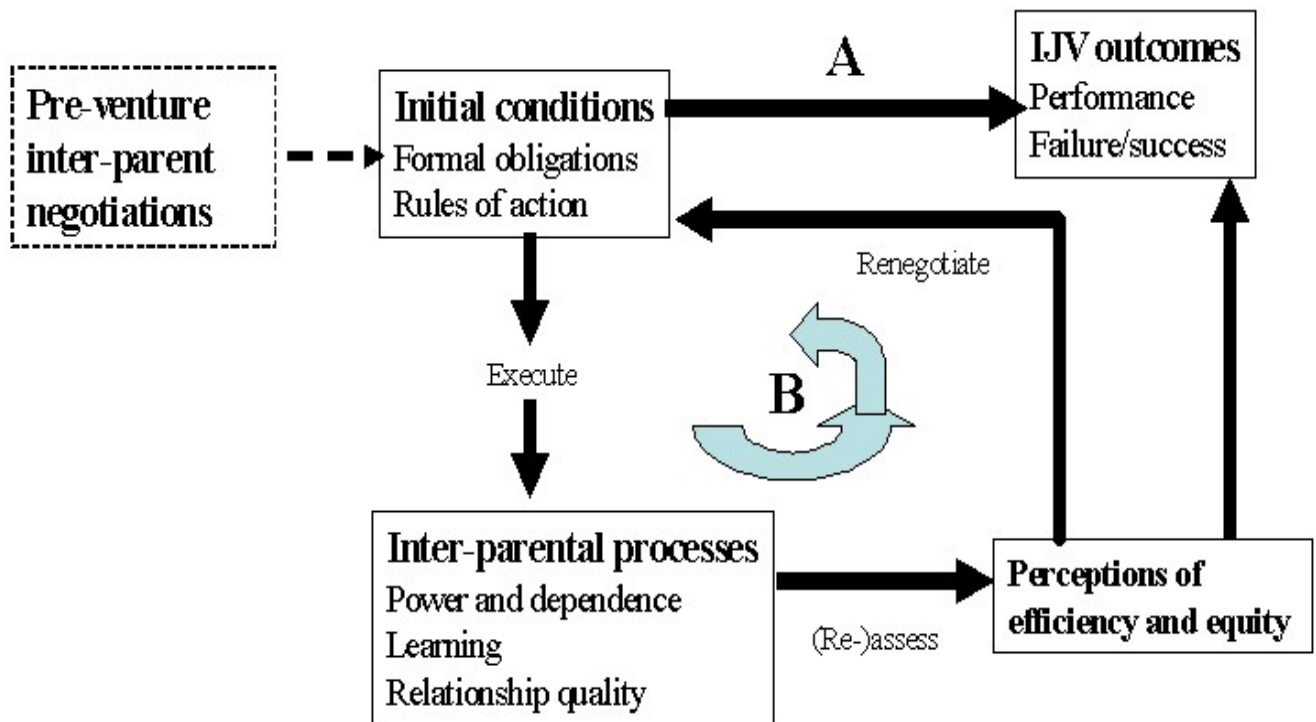
## **Previous research and a preliminary framework**

From a review of the structural and processual strands of IJV research, this section brings together key concepts within a preliminary theoretical framework (Figure 1) that summarises the current state of knowledge about IJV process and dynamics.

### **Initial conditions and IJV outcomes**

IJVs are different from conventional organisational hierarchies. Their initial conditions are agreed through pre-venture negotiation between the multiple owners and reflect the balance of power, strategic interests and cultural diversity of the parents (Geringer/Hebert 1989; Fey/Beamish 2000). They have been treated as defining the IJV's structural features and rules of action, including equity share (Killing 1983; Lecraw 1984; Blodgett 1992; Child 2002), governance structures (Geringer/Hebert 1989; Yan 1998), management control structures (Lecraw 1984; Yan/Gray 1994; Child 2002) and mechanisms (Fryxell et al. 2002), resource dependencies (Yan/Gray 1994) and know-how contributions (Beamish/Banks 1987; Hamel 1991; Geringer 1991; Yan/Child 2002). The initial bargain (Inkpen/Beamish 1997: 183) is therefore a negotiated resolution of 'contradictions' (Yan 1998) or 'tensions' (Das/Teng 2000) arising from parents' competitive and cooperative needs (Hamel 1991; Fey/Beamish 2000).

Figure 1. IJV structure, process and outcomes: A preliminary framework



These same conditions arising from ‘multiple agency’ (Child/Rodrigues 2004) make it difficult to conceptualise and measure IJV performance. For example, the termination or longevity of an IJV might not signal ‘failure’ or ‘success’, but the realisation of the parents’ agreed goals (Gomes-Casseres 1987; Geringer/Hebert 1989/1991; Yan/Gray 2001) or high barriers to exiting the venture (Parkhe 1991). The argument in this article avoids such value judgements and focuses on observable venture ‘outcomes’ such as the dissolution or longevity of the legal arrangement.

The findings of predominantly large sample multivariate studies of the relationship between IJV initial conditions and outcomes have been inconsistent. Some studies have found for the superiority of those IJVs dominated by one parent, whether on the basis of dominant ownership (Killing 1983; Geringer/Hebert 1989; Child 2002) or control of strategic resources (Lecraw 1984; Geringer/Hebert 1989; Yan/Gray 2001). However, other researchers have discovered the opposite effect, that shared control has better outcomes, especially in developing countries (Beamish 1985; Beamish/Banks 1987; Blodgett 1992). The concentration on a direct causal relationship between initial conditions (e.g. control structures) and outcomes (often formulated as ‘success’ or ‘failure’) – see arrow A in Figure 1 – has been criticised for seeking over-simple answers to the ‘messy’ problems (Parkhe 1993) of ‘process dynamics’ (Doz 1996), which are left untheorised in a ‘black box’ (Salk/Shenkar 2001; Shenkar/Yan 2002; see circular arrow B, Figure 1).

## Interparental processes

The desire to open the black box of IJV process has resulted in significant extensions to the mainstream way of thinking about IJV structure and outcomes. Process theorists argue that, to understand the effects of an IJV's initial conditions, one must examine how parents execute them (Ring/Van de Ven 1994). The literature identifies three IJV processes that affect the way parents perceive and respond to the venture-in-action.

*Power and dependence.* The IJV literature has long recognised the importance of the structure of interparental control, but, for process researchers, explaining venture changes involves understanding shifts in the structure of 'bargaining power' from initial conditions (Yan /Gray 1994; Inkpen/Beamish 1997; Yan/Gray 2001; Shenkar/Yan 2002). From a bargaining power perspective, a competitive parent can create instability with its partners by changing the balance of power and dependence (Inkpen/Beamish 1997), thereby causing the initial conditions to degenerate through 'micro bargains' (Hamel 1991). In turn, such behaviour can be evaluated by managers of weaker parents as an inequitable altering of initially agreed rules of action (Child 2002).

*Learning.* Learning processes also mediate initial conditions and outcomes (Doz 1996). The IJV is both the product of the knowledge and skills brought by each parent and a vehicle for each parent to acquire knowledge, competences and resources that it hitherto lacked (Inkpen/Crossan 1995). Inkpen and Beamish (1997) examine the relationship between learning, bargaining power and venture stability, when one or more of the IJV parents is driven by the 'law of opportunism' (Yan/Gray 2001; Shenkar/Yan 2002). Not satisfied with simply 'gaining access' to a partner's knowledge and skills, a parent may aim to 'internalise' a partner's knowledge (Hamel 1991), acquiring it in ways or at a pace beyond the rules of action. Winning the 'race to learn' first challenges initial conditions but also shifts the balance of inter-parent power and dependence. However, the initial conditions can also be executed to promote an expansion in the knowledge and skills contributed by the partners. Doz (1996) thus sees the initial conditions as fostering an 'evolutionary' process of learning, comparable in principle to what Nonaka (1994) calls a spiral of organisational knowledge creation.

*Relationship quality.* The quality of the interparental relationship is reflected in the literature in many guises as a determinant of IJV performance: commitment (Fey/Beamish 2000), attachment (Inkpen/Beamish 1997), the balance of formality and informality (Ring/Van de Ven 1994; Fryxell et al. 2002), consensus and conflict (Yan/Gray 1994; Yan/Gray 2001; Fey/Beamish 2000; Peng/Shenkar 2002; Shenkar/Yan 2002), partner complementarity (Geringer 1991; Fey/Beamish 2001), working rapport (Ring/Van de Ven 1994; Beamish/Banks 1997; Yan/Gray 2001; Yan/Child 2002) and trust (Child/Faulkner 1998; Currall/Inkpen 2002; Fryxell et al. 2002).

In defining how parents should work together, these relationship qualities are inscribed in the venture's initial conditions, in terms of legal contracts and formal control structures (Ring/Van de Ven 1994). When the venture works as expected, these formal and legal obligations become embedded in personalised relationships or attachments (Inkpen/Beamish 1997). Fryxell et al. (2002) found that an interparental relationship based on 'affect-based trust' tends to lead to cooperation and positive perceptions of IJV performance. This cumulative effect can work in the other direction too, making relationship quality pivotal in the internal dynamics of the IJV. For example, sudden shifts in the balance of interparental power (Yan/Gray 1994) or knowledge (Doz 1996) can create initial doubts within a hitherto stable relationship. Moreover, excessive reliance on formal controls can lead parents, especially experienced ones, to feel mistrusted (Ring/Van de Ven 1994; Fryxell et al. 2002). Once doubt exists, further evidence of 'bad faith' can trigger an obsolescing dynamic leading to potential dissolution.

### **Perceptions of efficiency and equity**

This discussion shows that the execution of initial conditions can create shifts in the three processes described above, which in turn lead parents to reassess the value of the venture to them. Ring and Van de Ven (1994) argue that parents use criteria of 'efficiency' and 'equity' in monitoring the rules of action and making judgements about the functioning of the venture. Efficiency refers to the application of technical and economic criteria, including the expected profitability and costs of the business, while equity invokes social judgements of fairness, good faith and agreed mutuality. In perceiving and evaluating the venture in terms of efficiency and equity, parents make judgements based on their interpretation of the rules of action established in the initial conditions.

### **IJV dynamic patterns**

Perceptions of changes in bargaining power, learning and relationship get objectified in dynamic process patterns. From the processual literature, we can distinguish between three dynamic patterns of IJV process as inertial, accumulative and obsolescing. An inertial path (Doz 1996) is stable, but creates repeated, unprogressive iterations that reproduce the initial conditions over time (Yan/Gray 1994; Yan 1998). When the initial conditions or shifts in them are adjudged efficient and equitable, parents renegotiate the venture in an accumulative dynamic that amplifies learning and knowledge-sharing (Inkpen/Beamish 1997), utilises power and builds mutual trust and results in IJV longevity (Parkhe 1991; Yan 1998; Fryxell et al. 2002). An obsolescing spiral describes the opposite dynamic pattern, following perceptions by a parent that the initial conditions have been executed inefficiently or unfairly. For example, when local knowledge is illegitimately acquired (Hamel 1991), or the balance of bargaining power changed (Inkpen/Beamish 1997) or partner complementarity

eroded (Geringer 1991; Parkhe 1991), negative re-assessment of the venture increases levels of instability (Yan 1998). The eventual outcome of this obsolescing dynamic over time is some form of venture dissolution.

Figure 1 summarises the contours of these arguments about IJV process and dynamics. In the remainder of the article, we use this conceptual model to examine the sequences of events within a German-Czech IJV, and, by identifying discrepancies, we seek to extend and refine the existing IJV process framework in terms of its explanatory power. Before that, we outline the methodology underlying our empirical work.

## **Research design and methods**

A number of IJV scholars have called for more qualitative case research to provide a richer picture of the ‘unfolding of the... [IJV] process itself’ (Doz 1996:56), and for inductive theory construction to make sense of the subject matter (Parkhe 1993; Child 2002). The DeutschMotor-Autodil Joint Venture (DAJV) was one of the first examples of foreign direct investment (FDI) penetrating the provincial Czech regions and was quite unlike the better publicised cases such as Volkswagen’s investment in Škoda. On the one hand, the establishment of DAJV is empirically interesting because it acted as a magnet for further Western capital in the region. But in the context of this article, it offers theoretically instructive case, because it provides a relevant setting for applying the preliminary framework to an archetypal dynamic pattern – dissolution through an obsolescing cycle and transformation into an MNC subsidiary.

### **Context**

DAJV was established in the Vysoký region<sup>i</sup>, which used to be a German ‘island’ in pre-World War Two Czechoslovakia. Although a legal act of retribution following the Nazi occupation of Bohemia and Moravia dispossessed ‘German’ citizens and sent them to Germany and Austria, many local Czechs with Germanic roots continued to have a grasp of the German language and an ease with German ways. Nonetheless, negative memories of wartime occupation sustain some ambivalence towards Germans, despite acknowledgement of their economic significance in post-socialist reconstruction.

Under the communist command economy, Autodil had been a large and successful automotive SOE, but since 1990 its former East European markets collapsed, state support was withdrawn and the directors have reluctantly made skilled workers redundant. When a government-funded enquiry concluded that SOEs in the Czech automotive industry could not survive without foreign capital, Autodil was omitted from the voucher privatisation schemes of 1991-



1995 and finding a foreign strategic partner became the central principle of senior managers' corporate strategy.

In 1990, GEM, a large German engine manufacturer, was impressed by one of Autodil's new product designs but reluctant to make a commitment unless Autodil worked with one of its existing German suppliers, DeutschMotor, to assure quality. DeutschMotor is a huge MNC with 90 years of experience operating abroad in 16 different engineering sectors in more than 50 countries. It is both a direct competitor and a customer of Autodil, supplying varied automotive parts directly to motor manufacturers and indirectly to other parts suppliers, like GEM.

### **Data collection and in-field analysis**

We collected empirical materials during three two-week field visits to Vysoký from June 2001 to May 2002. The wider aim was to develop community and enterprise-level materials on economic restructuring processes to complement embedded case study work (Yin, 2003) that we had conducted elsewhere (Clark/Soulsby 1995/1996/1998/1999a/1999b/2007; Soulsby 2001; Soulsby/Clark 1995/1996a/1996b/1998/2006/2007).

The project went through two major fieldwork phases. In the contextual phase, we made important local contacts and collected historical, economic and social information in the local archives. We conducted 'contextual interviews' with five leading political and business figures, visited enterprises and acquired documentary materials. In the second detailed phase (May 2002), we spent two weeks in Autodil, aiming to learn as much as possible about its internal restructuring experiences.

We combined our main research method, semi-structured interviewing, with collecting secondary materials and unsystematic observation. Using translators for language support and as cultural informants (Soulsby 2004), we conducted intensive interviews (lasting between 1.5 to 5 hours) with twenty-one respondents, comprising five directors, five other senior managers (including four former director), ten middle managers and the trade union official. The directors had on average worked 26 years within Autodil and were members of a powerful group of senior managers, known colloquially as the 'seven samurai'. Six of them had guided Autodil during the late 1980s, through the Velvet Revolution and had been responsible for negotiating the DAJV contract.

We adopted a mixed approach to interviewing, in part seeking 'factual' information (e.g. regarding dates, financial information, employment numbers) through structured questions. However, a major purpose was to examine managers' experiences of and involvement in the joint venture and the sequence of events that defined its evolution. Information was collected through an iterative process (Eisenhardt 1989), whereby themes and issues from one

interview were followed up in later ones, serving, through repetition, to increase confidence in the details of the IJV process, as perceived in the field (Yin 2003). We continued interviewing until no new information or issue was forthcoming – i.e. saturation point had been reached (Eisenhardt 1989). We recorded almost verbatim notes of the translator's version of the replies, seeking clarification when the translators' answers were truncated or omitted reference to words that seemed important. These notes were written up at the earliest opportunity, in practice the same evening.

This procedure resulted in a series of 'first-order accounts' of DAJV, touching systematically on its establishment, internal changes, the path to dissolution and key events and processes that influenced these phases. Through iterative in-field analysis, our understanding of the IJV story settled down around certain narrative themes and patterns, which formed the basis of our embryonic second-order interpretations (Van Maanen 1979; Gabriel 2001).

### **Analysis of empirical materials**

In-field analysis was complemented by more systematic and detached analysis away from the field. Two main techniques were used to derive a chronology, re-examine the embryonic second order accounts developed in the field from Czech managers' narratives of German management, and induct an overarching narrative (Pentland 1999) of the IJV as a sequence of events over time.

We started by devising a data reduction table (Miles/Huberman, 1984), which extrapolated data about venture establishment, perceptions of operation, perceptions of crisis, and dissolution and post-dissolution from the 22 respondents. At this stage, 'factual' information (e.g. dates and sequence of events) was checked against other sources of information, such as internal and external documents and contextual respondents' statements. This unwieldy table was further simplified by identifying agreements and commonalities in narrative, expression, metaphors etc. and assembling an overarching processual and chronological account.

From the above, it was possible to identify four 'critical incidents' (Ring/Van de Ven 1994), which disrupted the respondents' routine perceptions of the venture (see next section). As Weick (1995) indicates, interruptions in the 'ongoing flow' force actors to reinterpret their situation to restore its meaningfulness in the light of the surprise episode. These qualitative-analytical techniques assured that our final interpretations were always traceable to the first-order accounts and primary materials.

### **Potential problems**

We have had to confront two major problems. First, it is not methodologically ideal to have only Autodil's managers' experiences of DAJV, and, for

completeness, we have sought, unsuccessfully, DeutschMotor's version. The refusal of one party to cooperate is not unusual in dissolved IJVs (Shenkar/Yan 2002) and, even when researchers have evidence from both parties, there is a tendency to privilege just one side – usually the Western MNC (Lecraw 1984; Gomes-Casseres 1987; Parkhe 1991; Child/Rodrigues 2004). Despite its methodological desirability, this article's theoretical contributions do not rely on having both sides of the story. Wherever possible, we have been able to corroborate findings through inter-respondent reliability and independent sources (documents, contextual interviews). While it is unsafe to make inferences about DeutschMotor's actual motives from our materials, we collected substantial data about Autodil managers' own values and motives and of their perceptions and evaluations of DeutschMotor management behaviour. The application of interpretive skills to these data allowed us to construct an understanding of how and why Autodil's managers began to behave differently over time and an explanation of the dynamic processes that these differences engendered within the interparental relationship (Langley 1999).

Second, our research is affected by problems associated with a retrospective examination of IJV process. Practical circumstances made real-time longitudinal research impossible, but dealing with a 'complete case' means that we could assemble the whole story and the critical events within the process (Ariño/ de la Torre 1998; Shenkar /Yan 2002). We have followed Golden's (1992) advice to optimise the accuracy of the retrospective accounts and the validity of the case study findings. We acquired multiple perspectives by interviewing down and across organisational levels, used informed external disinterested respondents to monitor possible self-serving responses, and drew on published and unpublished evidence to corroborate 'factual' information (Leonard Barton 1990; Doz 1996).

## **The DeutschMotor - Autodil Joint Venture**

This section outlines the life of DAJV from its inception in 1990, through three years of operation (1992-1995) to its absorption as a wholly owned subsidiary into the DeutschMotor's multinational framework. The story is told as four overlapping critical incidents, as perceived by Autodil's managers. At each turn, these perceptions led them to re-assess the venture and engage with DeutschMotor management to clarify and reconfigure the initial conditions.

### **The initial conditions: contributions and expectations**

Autodil directors entered pre-venture negotiations hoping to persuade DeutschMotor's directors to become a long term strategic partner for the whole business. The final joint-venture agreement (see Table I) offered both companies something:

We wanted employment for our employees and the development of Autodil [which was crucial]... because of the loss of [traditional] customers... For DeutschMotor... the workforces [and labour costs] in Germany and the Czech Republic are very different... [but] transport costs are comparable... [and our] employees are qualified and experienced... (Autodil director).

DeutschMotor insisted on a controlling ownership share

you need 34% of shares to have power, according to Czech law. Autodil first wanted to put in 34%, but DeutschMotor turned this down. Then Autodil wanted to put in... [as little as] 12%... [but] DeutschMotor insisted that we invest more. So the [final deal of] 24% was a compromise. (Autodil director)

Through this ownership structure, DeutschMotor could appoint its own staff to senior management positions, including the General Director and Financial Director. It recruited a Czech Deputy Director from outside Autodil, which nominated only the Technical Director to represent its interests in DAJV.

*Table 1. Initial contributions to DAJV*

<i>Autodil</i>	<i>DeutschMotor</i>
140 million Kč (plant, land, buildings)	443 million Kč (capital)
Technically skilled workers	New technologies
Cheap production costs	Management know-how
Good location	Quality standards and systems
Supply parts to be assembled	Access to client networks
Product blueprints and patent	Access to supplier networks
Local networks	International reputation
Technical Director	General and Financial Directors

Autodil's capital share took the form of land, buildings and the original design for its work with GEM. It supplied components for assembly and selected a small number of employees for the start-up. The directors saw DAJV as an opportunity to acquire modern technology, secure jobs for some employees and learn about modern management practices, especially quality assurance. At the same time, strategic cooperation with DeutschMotor would connect Autodil into global industrial networks and allow the company to learn about MNC clients' expectations. Most of all, the efficiency of DAJV would generate profits to re-invest in Autodil's remaining independent businesses. On the other hand, DeutschMotor constructed a state-of-the-art assembly plant in a strategic location for eastern markets and gained access to a highly skilled workforce and the patent component design.

Autodil's managers assessed the initial bargain very positively. They had partially realised their priority to find a 'strategic partner' and the initial conditions set up clear expectations about the venture and the relationship with DeutschMotor. Their "catastrophic situation" (Autodil director) offered little choice but to accept DAJV's unfavorable structural conditions, but since

DeutschMotor remained dependent on Autodil managers for local knowledge, local resources and contacts, especially in relation to the labour market and political support, their new relationship augured well. DAJV was seen as the first step towards long-term cooperation with DeutschMotor and Czech managers expected the Germans to reciprocate. In the medium term, the joint venture would transfer critical management knowledge and generate profits to plan for and invest in Autodil's future.

With these formal structures and informal expectations, the IJV started operating in 1992. As a former General Director argued, "...it was very good at the beginning, like someone moving into the family as a friend". But there were unforeseen problems. To continue the quotation and anticipate the story: "...then you discover that he [the new family friend] is looking at your wife and you have trouble".

### **Critical incidents, internal processes and dynamics**

Analysis of the first-order accounts reveals four critical incidents: the venture's unplanned acquisition of labour; its loss making habits; DeutschMotor's unilateral plans to expand in the region; its unilateral plans to expand DAJV. Each incident affected the Czech managers' perceptions of MNC management and the inter-parent balance of bargaining power, learning and relationship quality; each challenged their understanding of DAJV and prompted responses that created an internal momentum and dynamic.

#### **Critical incident 1: poaching labour**

The initial agreement gave Autodil control of the transfer of workers to DAJV, but, soon after operations began, there were some unexpected incidents.

We expected a transfer of employees... [There] were only supposed to be 250 jobs [in DAJV] – only a few per cent of our employees... They were [to be] chosen by [Autodil] supervisors and managers, and the criteria were: could Autodil work without him? And could he complete the tasks needed by DAJV? ...Usually they were younger [employees]... (Autodil director)

However, within months of opening, the movement of labour from Autodil to DAJV, according to another director, had become an 'uncoordinated transfer...It was poaching'.

DAJV's personnel manager knew many of the workers at the Autodil plant and offered higher wages to attract the most skilled and experienced employees, thereby disrupting Autodil's capacity to run its own businesses efficiently. During these 'terrible years', key employees began to demand wages to match those of their former co-workers and rising labour costs and labour power created an internal crisis of production quantity and quality in Autodil.

In making sense of this unexpected turn of events, some Autodil managers felt that they were being treated unfairly and that the venture was affecting the efficiency of Autodil's operations. Though the seeds of doubt were sown for some, senior managers continued to have faith in DeutschMotor's original commitments.

### **Critical incident 2: making losses**

As one Autodil director explained, "...we expected a profit, [and] we needed the money for investment [in Autodil]". Yet, after its first full year of operation, DAJV not only failed to post a profit, it actually declared a large loss. On investigation, Autodil's directors discovered that the German parent had adopted a transfer pricing strategy, selling DAJV's products at a loss to DeutschMotor, which sold them on to its customers at a profit that was realised in Germany. According to another director, "DAJV was showing a perpetual loss – it was debt management". A senior manager agreed: "for every Deutschmark that Autodil gave DAJV, DeutschMotor took two".

This use of DeutschMotor's structural control in this way was entirely unanticipated by Autodil's managers, who saw the 'one-sided' decision as being quite contrary to the mutually beneficial venture that they thought they had established. Czech senior management was forced for a second time into sensemaking overdrive and their re-evaluation of DAJV led to some stark conclusions. Absorbing the losses from the unilateral transfer pricing methodology was a great blow to Autodil's strategic reinvestment plans. Nonetheless, this formative experience of international business practices undermined their hitherto unquestioned belief in DeutschMotor's cooperation and goodwill.

'Change of philosophy': In the light of their initial expectations, Autodil's management interpreted the two incidents as indicative of an emergent pattern, suggesting, in fact, that DeutschMotor had undergone a 'change of philosophy'. This realisation was epiphanic. Some believed it to be a genuine change in strategic commitment arising from a change in DeutschMotor's circumstances. Others were more cynical, feeling that the critical incidents had revealed the MNC's real strategic values and intentions.

Whatever DeutschMotor's 'real' motives, Autodil senior management from this time on attributed its actions towards DAJV to a more predatory strategic orientation, reflecting exploitative, short-termist, ethnocentric and competitive values. In making sense of DAJV, Czech managers reached for various metaphors, many located in local historical and national identities, such as 'colonialism', 'occupation', 'master-servant relationship', 'national fate', and 'comedy'. These sensemaking devices in turn screened out other possible explanations of the MNC's behaviour.

The attribution of a definitive change in DeutschMotor's values marked a point from which return to earlier expectations would be immensely difficult. Autodil managers' new understandings affected not only their explanation of past critical incidents, but also the prediction of future ones and their actions towards the German parent. Short of something unusual happening, the internal dynamic of the venture would now be built on these expectations of power, learning and trust in the interparental relationship, creating pressures towards obsolescence and dissolution.

### **Critical incident 3: expansion outside the JV**

In the spirit of cooperation, Autodil's directors had used their networks to put DAJV's General Director in contact with influential local politicians and officials. In time, the municipal and regional authorities granted DeutschMotor both land and tax exemptions to subsidise the building of new factories. Rumours spread in the community that the MNC intended to employ 11,000 people in the region.

In the light of DeutschMotor's 'change of philosophy', the Czech managers reassessed the motives behind DeutschMotor's plans to expand outside the DAJV framework. In a small local economy like Vysoký, DeutschMotor's aggressive competitiveness in labour and product markets threatened Autodil's future. This interpretation served to reinforce not only the image of DeutschMotor as a strategically expedient rather than cooperative partner, but also a new discourse of colonialism and betrayal that, mid-way through DAJV's life, was permeating Czech management thinking.

### **Critical incident 4: new capital injection into JV**

Twelve months before final dissolution, DeutschMotor announced its next strategic step – a fourfold increase in its capital investment in DAJV aimed at developing new product lines. This issue served as a catalyst in the IJV process.

We sold our shares to DeutschMotor, because [their] very expensive plans... were not acceptable... Without injecting capital, we would have atomised our share of the joint venture... we would have had no power and just have to stand and watch. (Autodil director)

Another director commented bluntly referred to DeutschMotor's behaviour as 'colonial'. DeutschMotor's plans reinforced the perceived inequity of the political process within the IJV. DAJV's expansion was also opposed on efficiency grounds viz. Autodil would be unable to recruit and retain its skilled workforce and mainstream production would be affected. One director described Autodil's position as "powerless and passive".

By 1995, external sources reporting similar patterns in other DeutschMotor joint ventures served to confirm their understanding of the Germans' motives. The director responsible for negotiating withdrawal perceived 'an efficient

philosophy': '...establish a joint venture, stabilise it, acquire local labour, buy the venture out... and konec [the end]'. Another director stated quite simply that by 1995 'DeutschMotor no longer needed Autodil'.

The continuous task of making sense of the venture-in-action led Autodil's managers to their understanding of MNC management. Their initial expectations of mutual trust, exploratory knowledge sharing, long-term cooperation and interdependence gave way to expectations of breached trust, competitive learning, short-term expedience and dependence. The accumulating bargain they had anticipated in the establishment of DAJV was transformed into an inefficient and inequitable relationship, in which they felt controlled, 'out-learned' and weakened. The joint venture had evolved into an obsolescing bargain leading to eventual dissolution and the direct acquisition of the joint venture organisation to be owned and managed as a subsidiary plant.

## **Discussion: Strategic sensemaking and the IJV dynamic**

The DAJV case confirms the overall contours of the preliminary theoretical framework deduced from the existing literature (Figure 1). In general, the internal processes conventionally locked up in a 'black box' mediated the relationship between IJV initial conditions and outcomes. More specifically, the findings underscore the important role of the local parent's perceptions of MNC management in responding to and enacting shifts in interparental bargaining power, learning and relationship quality. Through these perceptions, the Czech parent reconsidered its views of MNC management and re-evaluated the efficiency and equity of the venture, with subsequent renegotiations moving it through an obsolescing cycle towards dissolution, one of the three generic dynamic patterns.

We argue that our understanding of IJV process can be extended by capturing these insights theoretically. We enhance the theoretical role of sensemaking activities in a number of theoretical refinements that revise the existing theoretical framework.

### **1. Initial conditions**

The processual conception of IJVs needs to move beyond a narrow view of the venture's initial conditions, its structure of ownership and control as formal 'rules of action' to include the informal norms and expectations that parents hold of the venture in action. These initial expectations of the venture are theoretically central to processes of perception, interpretation and evaluation that permeate processual theory (see 3, below).

### **2. Venture expectations**

Autodil's management had strategic and operational expectations of how DAJV should operate. These expectations partly reflected their pre-venture priorities –



i.e. their ‘prior strategic orientation’ – that linked Autodil’s survival to a long-term strategic partnership based on interdependency, knowledge sharing and a co-operative working relationship. They also emerged from the negotiation process and were embodied in the structural arrangements that (they thought) were agreed with DeutschMotor. Thus, initially, they trusted the MNC partner to execute the venture’s conditions ‘equitably’ – in conformity with ‘agreed’ conditions – and ‘efficiently’, to allow improvements in their mainstream businesses. However, venture expectations were not fixed, but rather adjusted in relation to parents’ judgements of fairness and performance.

We propose that the preliminary theoretical framework be extended to include the concepts of prior strategic orientation and venture expectations. These reflect the well-understood ideas that partners vary in their ‘complementarity’ (Geringer 1991), their climate and values (Parkhe 1991; Johnson et al. 1996; Fey/Beamish 2000; Pothukuchi et al. 2002) and in particular values such as temporal orientation (Das/Teng 2000:89), knowledge exploitation or exploration (March 1991; Koza/Lewin 1998), intent to internalise or access knowledge (Beamish/Banks 1987; Hamel 1991) and ethnocentrism or polycentrism (Perlmutter 1969; Inkpen/Crossan 1995). The concepts perform an important theoretical role in the framework, explaining how the stages of the dynamic interrelate and unfold.

### **3. Critical incidents and the process of sensemaking**

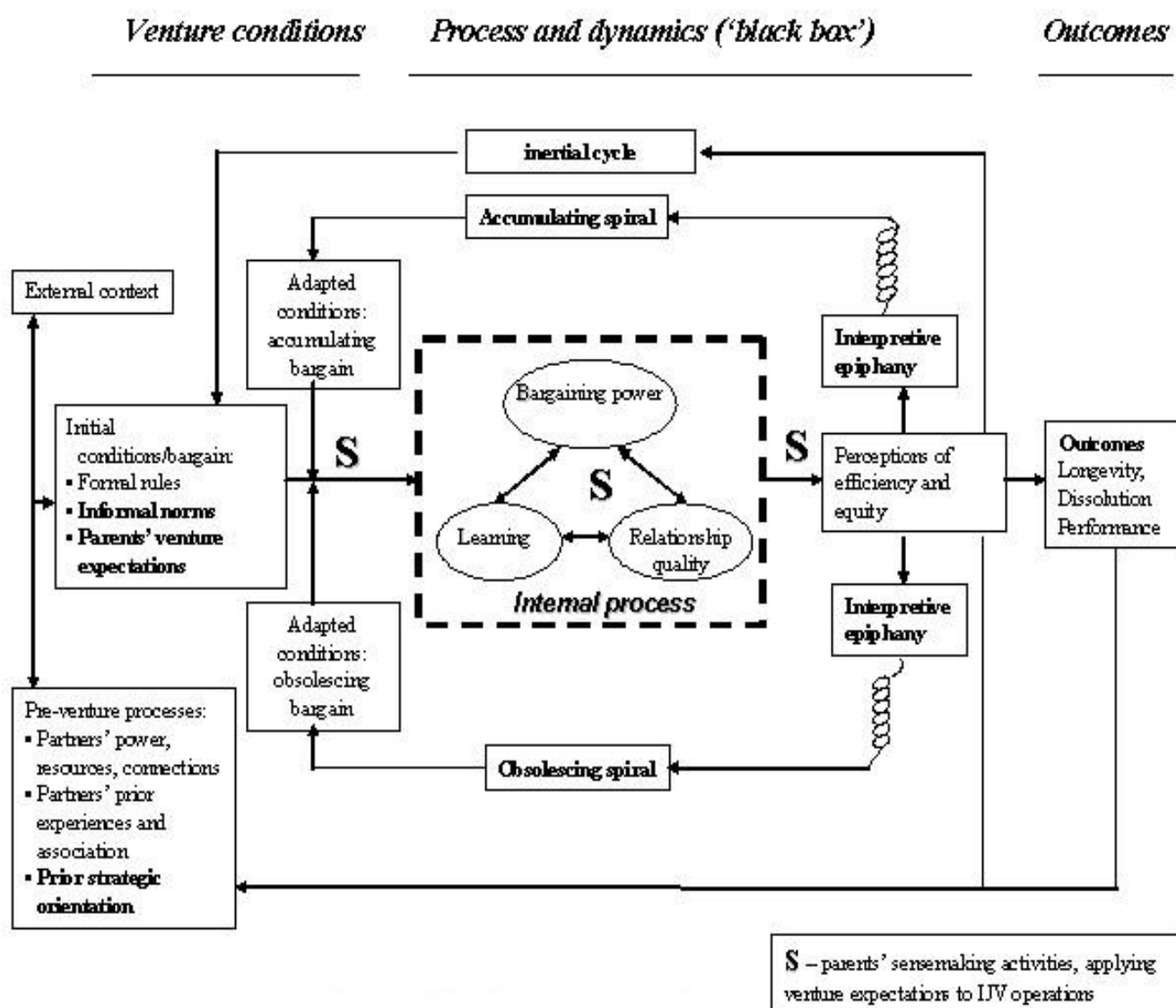
The initial conditions define the rules and norms of the venture-in-action, against which parent managers perceive and interpret the goings-on of the venture. As long as the initial conditions are realised, the IJV sustains an inertial path (Doz 1996). Critical incidents are theoretically significant occasions, when actors are confronted with unforeseen contraventions of the rules and norms of action and have to work hard to give meaning to these experiences.

The empirical arguments support the dynamic role of these sensemaking processes. Rather than the venture’s initial formal conditions being associated with venture instability and dissolution, this dynamic and its momentum ensued from the unanticipated divergence of ‘reality’ from expectations and the subsequent engagement in re-evaluation and renegotiation of conditions. In our case, the Czech managers drew on existing local and national discourses and meaningful metaphors to make sense of DeutschMotor’s conduct. They likened DeutschMotor to a ‘strong and big dictator’, a ‘colonialist’ and a war victor and saw their enterprise as ‘incubators for DeutschMotor’, ‘new servants’ with their own ‘sad fate’. Such discourses politicised their perceptions of the MNC by attributing strategic motives to the German managers; these political sensemaking, sensegiving and enactment activities fed back into the interparental relationship and contributed to the unfolding IJV process.

#### 4. Interpretive epiphany

From our empirical materials, we can infer one further theoretical mechanism in the internal dynamic process. When Autodil managers suddenly ‘realised’ that DeutschMotor was behaving according to different norms of action and applying different philosophical principles to those they had expected, they underwent an interpretive epiphany, which was a watershed in the IJV process. This in turn led to a radical re-evaluation of their own venture expectations, tipping the balance towards suspicion rather than trust. This interpretive epiphany is politically central to the dynamic that changes the direction of an unfolding process, because this realisation tinged all future perceptions and evaluations, creating a stronger momentum for the downward spiral and dissolution. In adding this theoretical mechanism to the revised framework, we suggest that it is worth further theoretical and empirical exploration.

Figure 2. Revised theoretical framework



By combining theoretical deduction from the existing literature and theoretical induction from the empirical case, we now provide the contours of a revised theoretical framework. Figure 2 shows the relationships between initial conditions, internal processes and venture outcomes, but the key revisions (in bold font) further prise open the ‘black box’ of internal process. The framework demonstrates the importance of venture expectations and sensemaking (S) in producing and promoting IJV dynamics.

The framework starts logically from the pre-venture negotiation of initial conditions, in which potential parents’ prior strategic orientations, their resources, bargaining power and previous experiences are played out within the particular business-contextual conditions. The resulting initial conditions define both the formal rules and informal norms of action, which in turn are reflected in the parents’ respective expectations of the venture. The execution of the initial conditions is reflected in the processes of bargaining power, learning and relationship quality, which are perceived by parents through the lens of their expectations of the venture, and evaluated in terms of norms of equity and efficiency.

At this stage, if the parents are satisfied with the venture’s operations (e.g. the balance of power or learning remains in line with expectations), they will reproduce the initial conditions via the inertial cycle loop. If they experience sharp and repeated discrepancies between venture expectations and venture operations, one or both parents may, via an epiphanic shift in expectations, enact either accumulating or obsolescing spirals that lead to an adaptive renegotiation of initial conditions. An accumulating spiral reinforces and improves the venture conditions, increasing the likelihood of longevity as an outcome, as in the case of evolutionary learning (Doz 1996). An obsolescing spiral, as in the DAJV case (Shenkar/Yan 2002), creates a tendency to venture deterioration and, other things being equal, to venture dissolution.

## Conclusions

In seeking to develop the theory of IJV process and dynamics, this article builds from and integrates existing knowledge of and research into interparental IJV processes. Our empirical findings in part support the importance of the initial structural conditions in understanding IJV outcomes, but also underscore the need to open up the ‘black box’ of internal processes. In this latter respect, our arguments affirm the significance of processual research, which has examined the dynamic effects of changes in the balance of interparental bargaining power, learning and relationship quality. These processes not only change as the initial conditions are put into practice, but they are also crucial in understanding how and why an IJV’s structural conditions change over time.

Our arguments add to the existing state of IJV theory by explicitly conceptualising the role of interpretive processes, parallel to Vaara's (2003) recent contribution to the theory of post-acquisition integration. When venture conditions are agreed, they establish not only formal structures or rules of action, but also informal expectations about the venture-in-action. The parents' expectations of the venture are crucial in explaining why and how they perceive, interpret and respond to each other and therefore to the venture-in-action. When venture expectations are contravened, a parent's ensuing sensemaking activities lead to re-assessment of the venture's meaning, for instance, in terms of efficiency and equity. The attribution of new meanings to the venture affects the way in which managers interpret and enact – and give objectivity to – its initial conditions.

Where there are repeated disjunctures between expectation and perceived reality, a parent may experience a mindset-changing epiphany and create an obsolescing or accumulating dynamic. Not only does this draw attention to the theoretical mechanism that precedes and prompts a directional turn – hence moving our understanding of IJV process beyond evolutionary cycles; it also adds the notion of an accelerating processual spiral. As in DAJV, an unchecked obsolescing spiral will eventuate in some form of dissolution, while an accumulating spiral is likely to prolong the life of the venture, possibly leading to new partnership activities (Doz 1996).

These arguments have a number of implications for MNC and international management theory. First, they direct research towards developing a more refined understanding of the role of diverse prior strategic values and venture expectations in MNC-local enterprise collaborations. Explicit studies of strategic orientations and commitments would put scholars (and practitioners) in a better position to explain or predict patterns of cooperation and breakdown in partnerships. Second, instead of the existing fragmented interest in IJV sub-processes, researchers are encouraged to focus more systematically on the interrelationships between politics, learning and relationship quality and on sensemaking as a central theoretical process.

Third, the particular findings of DAJV raise important questions about the aftermath of dissolved IJVs, following up the ways in which former parents build on their experiences. While it is known that MNCs generally use their prior IJV experiences to inform their later cross-border ventures, more qualitative data from case studies would enhance this stock of knowledge. In contrast, little is known about how local parents build on experiences of IJVs with large MNCs. In our own research, we know, for example, that Autodil's senior managers resented what, in the end, they saw as DeutschMotor's manipulation of the joint venture, were frustrated by their inability to realise their strategic preferences, and embarrassed by their international business naiveté. Nonetheless, they appreciated the hard lessons of working with a

successful MNC and, tongue in cheek, looked forward to taking on the powerful parental role in their plans to expand eastwards into the former Soviet bloc.

At a more practitioner level, this research draws the attention of local managers of 'weaker' parents within an IJV agreement to the possible ways in which MNC management can use the IJV as an organisational experiment in the evolution of new subsidiaries. Local managers, especially in emerging economies, can be quite naïve about the more expedient motives in international business and how 'real motives' can be dressed up in a politically softer language. Studies of MNC managers within IJVs can further give local managers preliminary insights into how MNC management might subsequently seek to integrate and operate their subsidiaries. In acknowledging the significance of strategic orientations and sensemaking processes in transnational settings, we therefore echo the call for more qualitative case studies to explore the complexities and nuances of international relationships.

## Notes

All names used in reporting this research have been changed in order to preserve the confidentiality of our respondents.

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