Successful International Joint Ventures: Going Beyond Control

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Abstract

Employing primary data derived from twenty interviews with managers of two subsidiary IJVs in China involving a single MNE headquartered in Sweden, in this paper we seek to go beyond the predominant focus of control in the IJV literature in explaining IJV success. Interviews were conducted on site between August 21 2009 and February 14 2010. The case study approach adopted in this research engenders rich empirical data for examining the arduous relationship between the source and recipient of knowledge transfer during the process of technology transfer. Findings reported in this paper confirm the results on control types from prior research. Additionally we show that subsidiaries' performance, success or failure, depends to certain extent on the entrepreneurial capabilities of the recipient of knowledge, which enable or impede the process of knowledge transfer. We argue for the need to draw on the emerging literature on regional variations in entrepreneurship in China and to develop conceptual frameworks for future research.

Keywords: IJVs, HQ-subsidiaries' relations, knowledge transfer, technology transfer, management control, arduous relationship, entrepreneurial orientation

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1. Introduction

International Joint Ventures (IJVs) are defined by Chen, Park and Newburry (2009: 1133) as "legally independent entities formed by two or more parent firms from different countries that share equity investments and consequent returns." The basis of most IJV structures involves a multinational enterprise (MNE) and a local partner pooling their respective, dissimilar competitive advantages. In the case of emerging markets such as China the MNE typically contributes product and process technology, brand name/trade mark, and international marketing support while the local partner contributes local knowledge-related expertise such as local marketing, local personnel management, or management of local government relations (Hitt, Dacin, Levitas, Arregle and Borza, 2000; Inkpen and Beamish, 1999). Although IJVs are widespread their success rate has been estimated to be no more than about 50 percent (Bamford, Ernst and Gubini, 2004) and there is evidence of particular difficulties for IJVs involving Chinese partners (Child and Yan, 2003).

Employing interview data derived from two IJVs in China involving a single Swedish MNE and two state-owned enterprises (SOEs), this paper seeks to go beyond the predominant focus of the IJV literature in explaining IJV success. Whereas much of the focus in this literature is on the issue of control, we argue that there is a need to combine this with perspectives contained in the technology and knowledge transfer literature. Additionally we argue for the need to draw on the emerging literature on regional variations in entrepreneurship in China.

The paper is structured as follows. First, we give an overview of three strands of literature, IJV, technology and knowledge transfer and regional variations in entrepreneurship. Second we present our methodology and data. As stated, our data encompasses two IJVs both of which have the same MNE parent and both of which are located in China. The one IJV has been successful for a number of years; the other is in danger of failing. Third we draw conclusions in relation to the three strands of literature.

2. Theories

2.1 International joint ventures

Endemic to the IJV literature is that congruent underlying motivations for forming the IJV should not be assumed (see e.g. Parkhe, 1991). Indeed it is not to be supposed that either parent is primarily committed to the long-term overall success of the IJV not least in emerging economies such as China. Thus in the case of a Western partner it may be the case that what is being sought is market experience; whereas for Chinese partners Luo, Shenkar and Nyaw (2001) suggest that technology acquisition is the principal motive. This latter motive may trigger anxiety on the part of the Western partner that its know-how may be appropriated by its partner (Geringer and Hebert, 1989). Thus Chen et al. (2009:1142) characterize the IJV "as a mixed motive game between parents who cooperate and compete at the same time." IJV performance is viewed as being dependent on stable resource complementarities between the partners (Hitt et al., 2000; Inkpen and Beamish, 1999) with resource complementarities as potentially transitory.

Because of the possibility of divergent underlying strategic motives the issue of control for the IJV parents, in the sense of ensuring that the IJV activities and performance is aligned with their own venturing objectives, is considered to be critical (Chen, Paik and Park, 2010). Arguably it is of even greater importance for the foreign parent firm because of its distance from the IJV. However, because of its multiparty nature – foreign partner, local partner and management – the IJV control system is "particularly troublesome" (Chen et al, 2009:1151).

While the literature on IJVs acknowledges the importance of legally enforceable contracts in resolving opportunism (e.g. Parkhe, 1993), it is also stresses that the effectiveness of contractually based control is questionable in emerging economies such as China due to the relatively lower legislative quality and effectiveness in law enforcement (Pistor and Xu, 2005). Thus, it is argued, that the significance of formal or legitimate ownership as a means of ensuring satisfactory control over IJV operations should not be overstated. Additionally having to resort to the courts is hardly conducive to maintaining trust and cooperation between partners. This institutional deficiency in emerging economies accentuates the distinction between ownership control and management control (Yan, 1998). Thus in the context of emerging economies such as China it is argued that it is the latter that is critical for exercising influence over IJV operations (cf. Steensma and Lyles, 2000). A distinction may be observed between those who emphasize the division of management control and those who emphasize types of management control.

In terms of the division of management control Choi and Beamish (2004:24) delineate four broad options available to MNE and local partners:

> Each partner controls its own firm-specific advantages (split control management).
>
> Both partners share control over all firm-specific advantages (shared management or shared control).
>
> The MNE partner assumes a dominant control over all firm-specific advantages (MNE-partner-dominant management).
>
> The local emerging market partner assumes a dominant control over all firm-specific advantages (local-partner-dominant management).

Chou and Beamish's review of previous research indicates an exclusive focus on the latter three options and, in regard to these three options, no consensus about their effect on IJV performance. Their own research includes all four options and suggests a positive effect of split control management on IJV performance in contrast to the other three alternatives none of which had any significant performance effect.

Rather than focusing on the issue of the division of management control, Chen et al. (2009) stress the type of control among IJV partners. That is they focus on the importance of parent firms operating in emerging economies of developing and modifying their managerial control systems in a way that safeguards their interests and prevents opportunistic behavior. They identify three specific, co-existing, control types used within IJVs: output control, process control and social control: "Output control measures and rewards outcomes, process control monitors ongoing behaviors, and social control influences embedded values of the controllee” (Chen et al., 2009:1136)

To exercise output control means that the parent specifies explicit outcome requirements, measures the degree to which these requirements are met and applies rewards or penalties accordingly. Parents exercise process control by implementing pre-specified procedures, formalized rules and routines and continuous surveillance. Social control by the parent involves social interactions such as team work, training or seminars which lead to shared values and common understandings between the parent and the IJV. Groot and Merchant (2000) argue that parents can exert each type of control mechanism tightly or loosely in their IJVs.

Chen et al.’s research involving large manufacturing IJVs in China indicates that specific resource contributions by a parent firm allow it to exercise specific control types. They distinguish between two types of resources, property-based and knowledge-based. While the former comprises well-defined assets such as production facilities and patents that are protected by contracts and property rights law, the latter comprise intangible know-how and skills and are protected by knowledge barriers such as tacitness. They found that property-based resources are linked to output and process control, whereas knowledge-based resources are related to process and social control.

Deploying data from a successful and an unsuccessful IJV within one and the same MNE we will compare and contrast their divisions of management control and the control types deployed.

2.2 Technological capabilities and transfers of technology and knowledge

We adopt the UNCTAD’s (1985, Chapter 1, paragraph 1.2, cited in UNCTAD, 2001) definition of technology as “systematic knowledge for the manufacture of a product, for the application of a process or the rendering of a service and does not extend to transactions involving the mere lease or sale of goods”. Defined as such, technology transfer is fundamentally a process of transferring knowledge of production, process and services. The efficacy of technology transfer is dependent on the learning capacities of the recipient firms to absorb new knowledge and skills

(Cohen and Leventhal, 1990). In the context of technology transfer between firms in developed economies and firms in developing economies, Lall (1996, p. 28) proposed the concept of technological capabilities, on the part of recipient firms in developing economies, which are “the skills – technical, managerial and institutional – that allow productive enterprises to utilize equipment and technical information efficiently.”

Child and Yan (2003) point to the training provided by the foreign parent as an important condition of IJV success. Pak et al. (2009) also point to the importance of successful learning on the part of IJVs particularly learning involving knowledge transfer from the foreign parent to the IJV. However, their findings also indicate the importance of the learning capacity of the IJV.

Technology transfer and knowledge transfer is a costly process that requires both tangible and intangible resources. According to Teece (1977: 243) the costs of technology transfer can be very high “when the technology is complex and the recipient firm does not have the capabilities to absorb the technology.” Focusing primarily on the difficulty of knowledge transfer, which Szulanski (1996) refers to as “internal stickiness” within organizations, he proposed a four-stage framework whereby he studied the characteristics of the knowledge transferred, the source of knowledge, and the recipient of knowledge. This is especially so when there is a tacit element to the knowledge involved. In this paper we pay particular attention to the concept of “Arduous Relationship”, which connotes laborious and distant relationship (Szulanski, 1996: 32). Thus the success of individual exchanges during the transfer of tacit components of knowledge depends on the communication skills and relationship between the source partners and recipient partners.

Deploying data from a successful and an unsuccessful IJV within one and the same MNE we will assess the impact of learning capacity and internal stickiness.

2.3 Regional variations in entrepreneurship

Jones (2007) points out that the most popular criticism of Hofstede’s (1980) approach to culture concerns his assumption that nations are homogenous. It is claimed that Hofstede tends to ignore the importance of multiple communities including regional communities that have distinctive characteristics. Thus in recent years, scholars of entrepreneurship and regional development have identified regional variations in entrepreneurship and new firm formation (Armington and Acs, 2002; Lee, Florida and Acs, 2002). These studies examined the factors that influence regional growth and development such as population, industrial structure, human capital and entrepreneurial activities. The Chinese partners of the IJVs in this study are from Shanghai and Dalian. Dalian is located in Liaoning province of northeast China and Shanghai is located in the Yangtse Delta bordering with Jiangsu and Zhejiang provinces. Yang and Xu (2006) find that in China there is a large regional variation in new firm formation and in entrepreneurship. In their sample of 31 major provinces and cities, scores for new firm formation ranged from 21 to 123. Their findings indicate that Zhejiang and Jiangsu provinces have high levels of entrepreneurship with scores of 123 and 121, respectively. Shanghai itself has a score of 77. The northeast provinces of Liaoning (where Dalian is located), Jilin and Heilongjiang show much lower levels of entrepreneurship with scores of 56, 35 and 34 respectively. Therefore, the subsidiaries and especially their local managers from the two regions will have different entrepreneurial orientations (EO) towards the respective IJVs (Lumpkin and Dess, 1996).

Deploying data from a successful and an unsuccessful IJV within one and the same MNE we will assess the impact of regional variations in entrepreneurship in China.

3. Methods

Following (Yin, 2008) we adopted a case study approach in this research project. This approach was chosen because we regarded the case study as a research strategy that “focuses on understanding the dynamics present within single settings” (Eisenhardt, 1989: 584). Semi-structured interviews and participant observations were the main methods of primary data collection. In total we carried out 20 one-hour interviews with senior managers in BKT, a Swedish auto part supply MNE and two of its 50-50 joint ventures in China. All interviews were conducted on site between July 21 2009 and February 14 2010. Interviews involved two of the three authors one of whom had the responsibility for note taking. The notes were transformed into text by the note-taking researcher and then discussed with the other author. We also collected secondary data by accessing archives such as company annual reports and meeting minutes. The third author carried out desktop search of material and data by accessing online databases and websites of the companies under investigation. This was followed by the triangulation procedure (Denzin and Lincoln, 2008). Within-case analysis was conducted by all three authors (Eisenhardt, 1989). In order to ensure reliability the main overall findings were presented to BKT's deputy CEO, Mr. Nordhaug, on May 18 2010. This meeting resulted in only relatively insignificant changes primarily of a factual nature. The interpretations of the data was not called into question.

4. Data analysis and discussion

4.1 The Parent HQ and its subsidiaries

Founded in 1962, BKT remained a domestic company until 2001 when it rapidly expanded its foreign activities both in Western Europe, Canada and in the Far East through a mix of entry strategies that included acquisitions, start-ups and joint-ventures. In 2009 BKT directly employed 1,550 personnel worldwide, of whom 450 were located in Sweden and 640 in China. Only 8 persons were employed at corporate headquarters. It comprised 27 business units in 14 countries meaning that in a number of the countries in which it operated it had multiple business units. This was not least the case in China, where BKT had multiple operations located in Dalian, Shanghai and Nantong.

In simple terms BKT's Western European operations contain the bulk of BKT's advanced competencies, whereas its Chinese operations are geared to low-cost production on the basis of standardized competencies. Overall, its Chinese joint venture operations are critical for BKT not only because they reduce factor costs, but because of the access they provide to the Chinese market.

In addition to two wholly-owned operations, one in Shanghai (BKT Auto Shanghai) and the other in Dalian (BKT Auto Dalian), BKT's main operations in China are two 50-50 joint ventures, BKT-Shanghai-JV and BKT-Dalian-JV. The Chinese partners of these two joint ventures are both SOEs. The main BKT partner of BKT-Shanghai-JV is BKT-Stavanger, although BKT-Bremen is currently more actively involved with it. The main BKT partner in the BKT-Dalian-JV is BKT's second German acquisition, BKT-LBK. Apart from the chairmen of their boards, neither BKT-Shanghai-JV nor BKT-Dalian-JV employs any BKT expatriates. BKT employees from the European operations are only at these operations when there are well-defined tasks to carry out.

4.2 BKT's Western European Joint Venture Partners in China

As we have noted neither BKT corporate headquarters, nor any of its Swedish operations, is directly involved in any of the joint ventures in China. Instead the BKT interface with its Chinese joint ventures comprises BKT companies located in Norway and Germany.

BKT-Gothenburg is designated the Electrical Components 'Centre of Excellence' of BKT. The company was originally founded by the Swedish MNE, Swed-Auto, in 1983 as a specialist centre for electrical components. In 1999 it was acquired by UK-Auto and then by BKT in 2001. It has approximately 100 employees. BKT-Stavanger is the BKT partner of BKT-Shanghai-JV. Its Managing Director (MD), Mr. Selart, is an old industry hand.

BKT-LBK is located in Lübeck and focuses on wheels, both for cars and heavy machineries such as dumpers as some of its specialized fields of operation. Bankrupt in 2004 it was acquired by BKT. It has 60 employees. BKT-LBK is the immediate BKT partner of BKT-Dalian-JV.

BKT-Bremen is designated the fender 'Centre of Excellence' of BKT. Its first hatch cover was designed and built in 1963 for Swed-Auto. It was eventually acquired by Swed-Auto before being acquired by UK-Auto in 1999 and then BKT in 2001. As such it has a common ownership history with that of BKT-Stavanger. More recently, in 2005, BKT's Bremen operation has been expanded by the acquisition of another Bremen company. This part of the Bremen operation is designated the alternators 'Centre of Excellence'. BKT-Bremen has approximately 110 employees. Although it is not formally BKT's joint venture partner of BKT-Shanghai-JV, it has considerable dealings with it. At one stage it also had substantial dealings with BKT-Dalian-JV, but it chose to relocate these to its wholly-owned subsidiary, BKT Auto Dalian.

Because of its long-term dealings with Scandinavians, dealings that go back to the 1960s, the MD of BKT-Bremen, Mr Schmidt, regards BKT-Bremen as decidedly more Scandinavian in outlook in comparison to BKT-LBK. However, he is not uncritical of Scandinavian leadership. There are times he thinks that Scandinavians are reluctant to apply clear guide-lines and take too long to arrive at decisions. He perceives this as a significant weakness particularly because his German employees want clear decisions. The same, he believes, applies to the Chinese who simply perceive the Swedish reluctance to tell them what to do as weakness. In regards to BKT beyond Sweden, he remarks: “Only the Norwegians want discussions”.

4.3 The Joint-Ventures

BKT-Shanghai-JV is a 50-50 joint venture company located in Shanghai with 80 employees dedicated to design rather than production. Its activities are focused on design, engineering and sale of fenders and electrical components to car manufactures in China. It also designs wheels. Wheels are its most standard product and fenders its most advanced. Within its niche the company had a market share in China of over 60 percent in 2007. Turnover for 2007 was SEK 380 million and the company’s earnings before depreciation were SEK 29 million.

The origins of BKT-Shanghai-JV lie in a joint venture that was established in 1998 by a Shanghai SEO and Swed-Auto’s one time Norwegian business unit. The latter eventually became BKT-Stavanger. Prior to the formation of this joint venture, during the 1990s, the Shanghai SOE licensed products from Fin-Auto. Joint venture negotiations with Fin-Auto, who wanted 80 percent equity ownership, broke down in 1997. In 1999 the Swed-Auto-Shanghai joint venture became part of the UK MNE, UK-Ship before UK-Auto’s 50 percent share was acquired by BKT in 2001. Thus at each stage of the joint venture the immediate European partner was BKT-Stavanger.

Madam Tan, who joined the Shanghai SOE in 1992, has been the joint venture MD since its beginning in 1998. In 2005, Mr. Ericsson, a Norwegian, was appointed Chairman of the Board. He was engaged on the strength of more than 30 years’ experience of industrial development in China and other Asian countries.

Its oldest BKT partner is BKT-Stavanger with which it continues to have dealings mainly through training and development programs. BKT-Stavanger, rather than corporate BKT, is the direct recipient of royalties from BKT-Shanghai-JV. However, BKT-Shanghai-JV's main current BKT partner is BKT-Bremen.

As stated above Madam Tan was the initiator of the state-owned Shanghai SOE's decision in 1997 to actively seek out a foreign joint venture partner when negotiations with Fin-Auto broke down. Thus since 1998 Madam Tan has been involved with foreign partners, first Swed-Auto, then UK-Ship, and finally since 2001, BKT. It is striking that Madam Tan, who is now approaching retirement, has succeeded in learning sufficient English since 1998, when she spoke little English, to be able to communicate in English effectively without the aid of an interpreter. While she is a member of the Communist Party her son works for the global investment bank, Goldman Sachs. She is clearly proud of her son's career.

Madam Tan is generally satisfied with the performance of BKT-Shanghai-JV. This is despite a down-turn in the market that she thinks may last for the next three years – a downturn which she will use to train and develop her employees in order to be able to grow when the market returns. She also has a generally favourable view of BKT commenting that it has a "more kindly" approach to doing business than its former partner, the UK MNE, UK-Auto. She experiences good cooperation with BKT-Bremen (fenders) and BKT-Stavanger (electrical components). Her view is that the joint venture will continue as BKT is good both with car makers and technology development. She observes that while every industry insider in China is well aware that BKT's main competitor, Fin-Auto, is globally stronger than BKT, BKT is, thanks to its joint ventures, somewhat larger in China. As such BKT is a strong brand within China. In terms of after-sales services she sees a potential for a new joint venture with BKT that will cover China.

Because BKT-Shanghai-JV is functioning well as a joint venture, Madam Tan explains that there is increasingly less need for formal meetings. In 2001 there were eight board-meetings a year. This has been reduced to two. The chairman of the four person board, Mr. Ericsson, has a casting vote, but at no point since he began as chairman in 2005 has he ever used this. Madam Tan characterizes the workings of BKT-Shanghai-JV as entirely transparent for both of the two partners. Her view of her role is that she is entirely independent of the Shanghai SOE. Indeed she even claims that, "Sometimes I feel part of the BKT family" and regards it as critical that BKT keeps its joint ventures “in the family”. Nevertheless, she acknowledges that she is also independent of BKT itself.

Mr. Ericsson, the Chairman of the BKT-Shanghai-JV board, shares Madam Tan’s generally positive analysis of the joint venture. As Chairman he leads board meetings and writes the minutes. He feels that not only has he a good insight into the finances of BKT-Shanghai-JV, but that he also is able to demand reports on all dealings with suppliers.

Mr. Schmidt, the MD of BKT-Bremen, recounted that at the beginning there were problems relating to quality and “a lot of fights” with Madam Tan as “you have to be strong in China”. He reflected that in Germany one is used to perfect workshops containing employees who are so technically proficient that they are able to independently correct design problems. However, in China, because they lack experience, every aspect of a design has to be entirely correct. Nevertheless, he concludes, the partnership with BKT-Shanghai-JV is now working well.

Mr. Meyer, one of Mr. Schmidt’s BKT-Bremen management colleagues, is of a similar opinion. He views BKT-Shanghai-JV as being, because of their “brilliant local contacts”, excellent in terms of generating sales in China. In his view had it not been because Fin-Auto, BKT-Shanghai-JV’s original partner, had been unreasonable then it would have been Fin-Auto who would have now have the market leadership in China that BKT-Shanghai-JV enjoys.

Mr. Meyer is actually critical of what BKT is contributing to BKT-Shanghai-JV. In his view for the most part all BKT-Shanghai-JV has received from BKT is the use of its brand and support in order to be able to attract international, not least European, customers who are sceptical of Chinese firms. Mr. Selart of BKT-Stavanger accepts this point of view as largely accurate. Beyond the brand name and marketing support in his opinion, “BKT-Shanghai-JV has received very little (technology) from us.” Indeed it is still basically using Fin-Auto technology that has been marginally developed. As such he thinks that BKT-Bremen could probably learn from BKT-Shanghai-JV.

The second IJV is BKT-Dalian-JV. It is the outcome of an agreement for a 50 percent joint venture with a second Chinese SEO for engineering, production and sale of autos wheels to auto makers in China. BKT-Dalian-JV is fully licensed to produce and sell BKT wheels. BKT-Dalian-JV was established in premises in new industrial site on the outskirts of Dalian in 2005. By 2007 it had achieved a market share in China of about 40 percent. In its fully operational year, 2007, BKT-Dalian-JV posted substantial profits. However, since 2008 they are now considerably more modest as the market has contracted. It currently has about 80 employees. Its MD is Li Wang, and the Chairman of its board is Mr. Hansen.

For BKT its decision in 2005 to form a new 50-50 joint venture between BKT-LBK and this SEO was a product of its encouraging experience with BKT-Shanghai-JV. Indeed the contract that formed the basis of the BKT-Shanghai-JV was used in establishing BKT-Dalian-JV as a legal entity. In other words it was not a requirement that BKT ally itself with an SOE but a decision that reflected a positive track record with the Shanghai SOE.

Mr. Hansen speaks no Chinese and Mr. Wang apparently no English. While Mr. Wang has been the MD of BKT-Dalian-JV since it was established, Mr. Hansen became Chairman late in 2008. Mr. Hansen succeeded Mr. Ericsson as Chairman because BKT's corporate headquarters concluded that his relationship with Mr. Wang had become excessively acrimonious. Mr. Wang characterizes the relationship with Mr. Hansen as positive, but the latter is markedly less enthusiastic explaining that for the first six months no one came to his office, which is in the company building, uninvited. However, more recently Mr. Hansen considers that things have improved and he thinks that he is now regarded as someone whose advice is sought.

Both Mr. Hansen and Mr. Wang view the relationship with its primary BKT partner, BKT-LBK, as problematic. The standard parts of the BKT-Dalian-JV's wheels are manufactured by a network of local Chinese private firms and SOEs. This network of subcontractors has been developed by Mr. Wang. Mr. Hansen argues that this network could only have been developed by a local with the right connections. However, Mr. Hansen points to problems with quality of the work conducted by these subcontractors. This applies particularly to the privately owned sub-contractors and is, according to Mr. Hansen, due to their tendency to employ the cheapest available labour. Much of this is poorly trained. These quality problems usually only emerge when BKT-LBK employees are engaged in installing the wheels. Because the costs of the added time involved in making repairs are borne not by BKT-Dalian-JV but by BKT-LBK, the BKT-LBK employees, according to Mr. Hansen, react vociferously and very negatively to any and every deviation in quality.

Mr. Hansen considers the Germans overly sensitive in their approach to quality issues and claims that many of the shortcomings they identify are no more than cosmetic. However, he also feels that BKT has underestimated the time it takes to transfer quality-consciousness to a Chinese operation. Equally he feels that BKT has not paid sufficient attention to the design of its contractual arrangements with its Chinese partner. Thus when BKT requested that BKT inspectors should carry out quality checks at the subcontractors to pre-empt problems Mr. Wang not only refused to cooperate on this but was apparently not contractually obliged to do so. This tension is also exemplified by Mr. Wang's refusal to consent to Mr. Hansen to operate with his own interpreter rather than having to rely entirely on Mr. Wang's. We may further note that Mr. Hansen has conceded the right to act as chair of BKT-Dalian-JV board meetings.

The contractual arrangements also limit the degree of transparency Mr. Hansen can demand in regard to significant aspects of BKT-Dalian-JV's operations. The financial accounts are prepared by appointees of Mr. Wang and Mr. Hansen has therefore no insight into their preparation. Similarly it is Mr. Wang who single-handedly negotiates with the sub-contractors all of whom belong to his own personal network.

Mr. Wang's main concern with BKT-LBK is that it deliberately blocks core technical parameters so that the components it delivers to BKT-Dalian-JV cannot be replicated locally. He remarks that if this issue cannot be resolved there will be a "big problem". He feels though that he has the full support of the BKT CEO in this matter. A secondary issue is that on occasion BKT-LBK has not made staff available in what Mr. Wang considers a timely manner. However, on these occasions BKT corporate management has intervened on behalf of BKT-Dalian-JV. Mr. Wang is also exasperated that suggestions made by BKT-Dalian-JV to BKT-LBK in regard to product improvements have been rejected and that, again, it has been necessary to appeal to BKT corporate management. Mr. Wang accepts that cultural differences are an issue in MNEs, he is for example shocked that Swedish managers are not prepared to work during their vacations and expect to be able to leave the office at 4 pm to pick up their children from play school. However, in regard to BKT-LBK he refuses to apply cultural explanations to the difficulties he has experienced.

In terms of having a sense of belonging to a “BKT family” Mr. Wang finds that notion problematic because BKT-Dalian-JV is a joint venture. Indeed he feels that because it is a joint venture, BKT-Dalian-JV is under-prioritized by BKT. He argues that BKT corporate management should play a more active role as company-wide integrators. When asked about the future role of BKT-Dalian-JV as part of BKT he points to the agreement that stipulates that the relationship is to continue for twenty years.

From the BKT-LBK perspective the view of the difficulties besetting BKT-Dalian-JV is very different. Ms Neuhaus , a key BKT-LBK manager, finds dealing with BKT-Dalian-JV frustrating not least because of BKT-Dalian-JV’s “continual reinterpretation of the joint venture contract” and the “tremendous quality problem” in regard to its output. This poor quality of workmanship at BKT-Dalian-JV “hurts” BKT-LBK employees who have “an obsession with quality.” Ms Neuhaus points out that when one uses independent suppliers there are clear contracts and sanctions that can be deployed if those contracts are not met. However, “joint ventures cannot be taken to court”. So “the challenge is to find the right tone.” To date though Ms Neuhaus feels that in regard to quality and prices the “Chinese do whatever they want” and they also win all of the arguments not least because “when they do not get their way they threaten to stop production.” In regard to this threat she views BKT corporate headquarters as far too accommodating.

However Ms Neuhaus is also conscious that immediately prior to its acquisition by BKT in 2004, LBK was bankrupt and that the relationship with BKT-Dalian-JV has brought in significant orders – indeed 95 percent of BKT-LBK’s orders stem from BKT-Dalian-JV. Effectively BKT-Dalian-JV, under the “well-connected Mr. Wang has opened up a lot of doors for us in China”. Despite this positive aspect to the relationship between BKT-LBK and BKT-Dalian-JV and despite the fact that they were effectively out of work in 2004, Ms Neuhaus observes that “the old LBK history is still there – the ‘new spirit’ has not been communicated.” Thus the basic attitude at BKT-LBK is that “they (the Chinese) will take all our knowledge” accompanied by a bitterness that “BKT-Dalian-JV will have acquired everything in the space of a few years that has taken us sixty years of consistent effort to develop.”

This fear for what the future has to offer is accentuated by the contract with BKT-Dalian-JV which stipulates that in 2011 all responsibility for the production of standard wheels will rest with BKT-Dalian-JV and that BKT-LBK will have to concentrate on more innovative products and after-sales service. If BKT-LBK cannot succeed in this then it will have to lay-off employees.

Ms Neuhaus also believes that in addition to the reluctance to share knowledge with production engineers at BKT-Dalian-JV, BKT-LBK has so many responsibilities within the areas of both design and training that there is also a “capacity problem”. This capacity problem is compounded by high production staff turnover at BKT-Dalian-JV meaning that there is a constant stream of new production employees who have to be trained. Additionally, the effect of poor knowledge sharing and poorly trained production employees is exacerbated by a second factor. BKT-Dalian-JV engineers – with Mr. Wang’s compliance – choose to locally purchase steel structures of a cheaper and inferior quality. Ms Neuhaus attributes Mr. Wang’s compliance in this practice to the contract that stipulates that quality problems are the responsibility, financial and technical, of BKT-LBK. Thus when quality problems are observed BKT-LBK is obliged to carry out and finance the repairs.

Across BKT there are many views of BKT-Dalian-JV but there is a general consensus that its relationship with BKT-LBK is critically undermining its performance. There is also criticism of Mr Wang’s capabilities and outlook. For example, BKT’s deputy CEO, Mr. Nordhaug, while he acknowledges that Mr. Wang played a useful role in getting the industrial site BKT-Dalian-JV occupies built by local interests, he points to a lack of a sales mentality that will make recovery from the current down-turn difficult. In regard to Mr. Wang’s selection and performance, Mr. Nordhaug states that BKT has never had any dialogue with BKT-Dalian-JV’s Chinese SOE owner.

The view that dialogue with Mr. Wang is highly problematic forms the backdrop to the decision by BKT in 2008 to remove the responsibility for alternators from BKT-Dalian-JV and to set up the wholly owned BKT Auto Dalian. Alternators are the responsibility of BKT-Bremen and BKT-Bremen was highly critical of the ability of BKT-Dalian-JV to meet its quality standards. Indeed the alternators it was to assemble simply failed. The immediate reason for the failure appeared to be an inability to train production workers in BKT-Dalian-JV because of high worker turn-over. Located on the same industrial site as BKT-Dalian-JV the climate between the two operations may be summed up by a large clock that Mr. Wang had delivered to its Norwegian MD on his first day at BKT Auto Dalian. Within Chinese culture such a gift symbolizes “no future dealings”.

Madam Tan regards BKT-Shanghai-JV as very different from BKT-Dalian-JV. In terms of its capabilities she points out that BKT-Dalian-JV is currently dependent on BKT-LBK. She further argues that it can only do manufacturing and that it needs to learn to do design. In terms of its leadership, while she regards herself as a marketing-person, she views Mr. Wang as a production “boss” with no feel for marketing. Indeed she regards Mr. Wang as unsuitable as MD. At the least, she argues, he should be supported by a marketing person who is capable of cooperating with the auto owners. She remarks that Mr. Wang has significantly weaker relations with BKT-Dalian-JV’s Chinese ultimate SOE owner than she has with hers. In regard to BKT Auto Dalian Madam Tan has assisted the operation.

Madam Tan’s Chairman at BKT-Shanghai-JV, Mr. Ericsson echoes many of her views. He was Chairman of BKT-Dalian-JV from 2005-2008. Above all he is critical of Mr. Wang who he says will not accept any real responsibility for the situation. He is also critical of Mr. Wang’s inability to create customer relationships. Indeed he is so critical of Mr. Wang that he regards the business model at BKT-Dalian-JV as opaque and even implies that Mr. Wang is not entirely trustworthy. However Mr. Ericsson is also sceptical of the BKT-Dalian-JV chairman, Mr. Hansen, who he points out, unlike himself, does not know the industry, and can therefore be more easily deceived and isolated.

Similar views are expressed by Mr. Selart, the MD of BKT-Stavanger. He claims that “Mr. Wang has been a problem from day one”. He has no faith in Mr. Hansen’s ability to deal with Mr. Wang not only because the former does not understand the products but also because he is generally ineffective and weak in his dealings with Mr. Wang. In terms of joint ventures in China he views them as generally problematic in that they ultimately depend on personal chemistry. However, he is more sceptical of joint ventures with private partners than with SOEs because, in his experience, the latter tend to “steal intellectual capital before setting up as competitors”. His colleague and Chief Financial Officer at BKT-Stavanger, Mr. Lindberg, while distrusting Mr. Wang, is also critical of BKT-LBK which he views as blinkered in its relationship with BKT-Dalian-JV in that it fails to consider future possibilities for its products in for example Korea.

Mr. Schmidt, the MD of BKT-Bremen, acknowledges that working with BKT-Dalian-JV has been very much more problematic than working with BKT-Shanghai-JV ever was. He thinks that some of this difficulty may lie in Dalian itself which he views as much more provincial and much less business oriented than Shanghai where “the main religion is dollars”. However, BKT-Dalian-JV has also been harder to fathom than BKT-Shanghai-JV in that “it seems more political in its workings”. Mr. Wang in particular seemed to have a power focus rather than a business orientation. Although Mr. Schmidt believed Mr. Wang understood English he assumed that his refusal to speak it was due to his fear of appearing weak. Further he observed that he viewed Mr. Wang as a “production guy” rather than a “marketing guy”. However, he also considers that BKT-LBK is “typically German” in terms of its culture and that this very German aspect to BKT-LBK is part of the explanation. However, he thinks that the cultural explanation of the conflict between the two is only part of the story. The reality is that BKT-LBK does not want to give away their knowledge to the Chinese fearing that it will cost them their jobs. As a result of a lack of knowledge sharing BKT-Dalian-JV delivers wheels of such poor quality that there is a team of 16 BKT-LBK employees dedicated to repairing the wheels prior to their installation. He characterizes this outcome as “unacceptable”. However, Mr. Schmidt views it as impossible to remove Mr. Wang because the relationship with the SEO would be destroyed.

A somewhat contrasting view of Mr. Wang is expressed by Mr. Larsen, the Swedish MD of BKT Auto Shanghai. He confides that he has been regularly asked by BKT corporate management to parley at BKT-Dalian-JV and is therefore very conscious that there are problems in this operation. Mr. Larsen knew Mr. Wang before BKT-Dalian-JV was established. He feels that Mr. Wang trusts him and observes that Mr. Wang is uniquely prepared to speak in English to him on the phone. Mr. Larsen is disheartened with the Germans Mr. Wang has dealings with, regarding them as “shrill and heavy-handed”. He points out that Mr. Wang has no personal ownership interests in BKT-Dalian-JV and that BKT-Dalian-JV is dependent on the BKT brand so that it is unlikely that Mr. Wang will initiate a break-up of the joint venture. Nevertheless he points out that his non-authoritarian Swedish style of management and Mr. Wang’s hierarchical style are very different. Furthermore, he observes that foreign companies generally abandoned the joint-venture model as an entry mode in China in the early part of the decade and that in this sense BKT is out of kilter with other MNEs.

Ms Dale, BKT’s After-Sales Services manager, has also enjoyed a generally good relationship with Mr. Wang. However, she characterizes him as insufficiently commercial in his outlook and she regards the control of the joint venture by BKT as inadequate in relation to protecting its interests. A particular concern of hers is that the poor quality of products emanating BKT-Dalian-JV will sooner or later result in claims that BKT after-sales services will have to meet. She views the contract with BKT-Dalian-JV as a product of a fortunate experience with BKT-Shanghai-JV that blinded BKT to the need to ensure that its interests are properly safe-guarded when entering joint ventures. She remarks that “the longer Mr. Wang is in place, the more powerful he will become.”

5. Conclusions

While BKT-Shanghai-JV is generally functioning well, the more recent joint venture, BKT-Dalian-JV, has not only seen its earnings decline markedly but, of much greater significance, it has become the scene of tensions, conflicts and profound quality problems. These quality problems have the potential to undermine the BKT brand. This is despite BKT-Dalian-JV having identical ownership and contractual arrangements to that of BKT-Shanghai-JV. It is also despite that both joint ventures have similar European interfaces. In the case of BKT-Shanghai-JV its current active partner is BKT-Bremen and in the case of BKT-Dalian-JV its main partner is BKT-LBK. That is both BKT partners are German.

In regard to the issue of the division of management control and the control types deployed, the data exposes significant differences. In the case of BKT-Shanghai-JV we observe split control in that both partners control their own firm-specific advantages. The BKT partners, both BKT-Stavanger and BKT-Bremen own the BKT brand while BKT-Shanghai-JV possesses a design capability and has the necessary market contacts. In the case of BKT-Dalian-JV we may conclude that there is an on-going struggle for domination. In terms of control types, at BKT-Shanghai-JV we may observe both output control and even a measure of social control in that Madam Tan regards herself as a "part of the BKT family". At BKT-Dalian-JV the lack of transparency means that output control is weak. In that Mr. Wang does not identify at all with BKT it is reasonable to conclude that social control is non-existent. As for process control, attempts by BKT to insert its inspectors into the production supply chain were rebuffed.

While this analysis is useful it does raise the issue of why both the division of management control and the control types deployed are so radically different between two IJVs that have so many apparent commonalities. We argue that the issues of learning capacity and internal stickiness are critical factors. In the case of BKT-Shanghai-JV little knowledge has had to be transferred from either BKT-Stavanger or BKT-Bremen. In the case of BKT-Dalian-JV the transfer of knowledge is a core issue. In part we observe a limited learning capacity on the part of the joint venture not least because of high labor turn-over. In part we observe reluctance on the part of BKT-LBK to transfer its knowledge. However, in line with Mr. Hansen, we also surmise that notions of quality are highly problematic to transfer from the BKT-LBK setting to BKT-Dalian-JV. In short we argue that it is the sum of these knowledge-related issues that have generated critical control-related issues at BKT-Dalian-JV.

An additional factor the data underscores is the difference in entrepreneurial mentality between Madam Tan of Shanghai and Mr. Wang of Dalian. As Mr. Schmidt commented in Shanghai "the main religion is dollars" whereas in Dalian there is less of a business orientation. In the eyes of Madam Tan, Mr Wang is a "metal-bashing production 'boss'" who has no notion of marketing. Power and status appear to be more salient issues for him than how to create customer relationships. English can only be used with individuals who do not pose any threat. Given this mentality, the trust that is necessary to create split-control or shared-control is problematic. Likewise, achieving process and social control, necessary when knowledge-based resources are key (Chen et al. 2009), is impaired. One should of course be wary of using two individuals to illustrate the macro-level phenomenon of regional variations in entrepreneurship in China, but on the other hand these individuals are nominees of regionally-based SOEs and in that respect may be regarded as representatives of two different outlooks, which are underscored by their latent entrepreneurial orientations. This regional culture dimension is an emerging theme out of this research and we suggest that it is one that should form the basis for further research within the IJV in China field.

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