

33rd EIBA Annual Conference:
International Business, Local Development and Science-Technology Relationships

**Faculty of Political Science
University of Catania
Italy**

13-15 December 2007

Track: International Business and Local Development

***International Joint Ventures and Processes of
Organizational Identity Construction***

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ABSTRACT

This paper seeks to contribute to our understanding of how international joint ventures (IJVs) unfold over time. A critical review of the existing theory of IJV process reveals two major gaps: the inadequate consideration of first how venture parents make judgements about the IJV and second how the process takes dynamic turns leading from apparent longevity to eventual dissolution. We argue that theorising the emergent relationship of parents as a process of organizational identity construction adds enormously to the resolution of these two problems. This theoretical approach was inducted from field research about Czech managers' perceptions of a dissolved Czech-German IJV and is explored within the context of empirical findings from this case. The paper concludes by drawing lessons from this development of the theory of IJV process.

Research on international joint ventures (IJVs) has expanded in pace with their proliferation as organizational forms (Yan, 1998) and their significance as internationalizing strategies (Guillén, 2003; Parkhe, 1996; Si and Bruton, 1999). A joint venture is a legally separate organizational entity created by two or more independent (parent) firms to pursue a specific business project. It is international when the headquarters of at least one of the parents is based outside the country in which the joint venture organization (JVO), set up by the IJV agreement, operates (Geringer and Hebert, 1989). This paper follows the conventions of the literature by focusing on two-parent IJVs, whose structure, process and outcomes are examined *through the parents' behaviour*.

One consistent theme of research into international joint ventures has been the search for an explanation for their performance outcomes, in particular their apparent predisposition towards 'failure' or dissolution. Researchers studying IJV outcomes have adopted one of two theoretical perspectives. Most have concentrated on the causal role of structural factors built into the IJV's initial conditions established by the parents. In this view, the likelihood of 'failure' arises from the 'intrinsic vulnerability' (Das and Teng, 2000) of multiple ownership and the IJV's 'transitional' structural characteristics (Vernon, 1977). Studies of the effects on IJV performance of ownership share (Killing, 1983; Lecraw, 1984; Blodgett, 1992), governance structures (Geringer and Herbert 1989; Yan, 1998) and management control structures (Lecraw, 1984; Child, 2002) have generated inconsistent results. As a result, scholars have refuted a simple theoretical and empirical relationship between IJV structure and outcomes (Gomes-Casseres, 1987; Yan, 1998) and looked for contingent conditions that moderate the relationship (Beamish, 1985; Uhlenbruck et al., 2003). Methodological critics point to the inability of quantitative techniques to examine the 'messiness' of what actually goes on in 'black box' of the unfolding inter-parental relationship (Parkhe, 1993; Shenkar and Yan, 2002), arguing that it is these 'process dynamics' that need to be studied (Doz, 1996).

This second, processual, approach therefore considers how the initial IJV conditions are reproduced or changed over time through the internal process, nudged forward by the judgements made by the parent firms about whether the IJV has fulfilled these conditions efficiently and equitably (Ring and Van de Ven, 1994; Doz, 1996; Ariño and de la Torre, 1998). The ensuing cycle of negotiation, execution and evaluation leads to a steady process that either maintains, enhances or deteriorates the quality of the parents' relationship. The qualitative, grounded and longitudinal research strategies advocated by process scholars have deepened our understanding of the IJV, but there remain significant theoretical gaps. In particular, scholars have under-theorized how and why parents accomplish the internal dynamics of the IJV, because they relate the central perceptual process less to the ongoing interpretive work of committed social actors and more to the initial conditions that act as structural constraints on social process. Moreover, this evolutionary view of the IJV process as momentum built into the initial conditions understates the possibility of 'dynamic turns' in the relationship i.e., radical changes of direction within the established path. Our research falls within this processual stream of thinking about IJVs and makes its main contributions by enriching our understanding of the inter-parental perceptual process and the dynamic turn.

Our theoretical view initially emerged inductively from trying to make sense of the conduct of the most senior directors and managers in a former Czech state-owned enterprise (Autodil¹), as they came to grips with their IJV experiences with a German MNC (DeutschMotor). For former state-owned enterprises (SOEs) in post-socialist societies, their command-economic legacies left them with institutionally and technically inappropriate attributes (Clark and Soulsby, 1999; Newman, 2000). Senior managers of former SOEs saw ‘becoming market-economic’ as central to the restructuring and survival of their enterprises and entering into alliances with Western MNCs was one way to acquire new attributes quickly (Lyles and Salk 1996; Meyer and Lieb-Dóczy, 2003). Our empirical materials directed our attention towards three issues that are not well developed in IJV literature. First, Autodil deliberately saw the IJV as an instrument for modernization, for reconstructing its identity in order to *become* something different.; second, the palpable struggle of the Czech managers to make sense of the German MNC’s behaviour highlighted the significance of understanding *their* perceptual lens; third, the sudden change in their perceptions after two years suggested that the IJV process could be more than evolutionary. In our desire to understand *these* empirical observations, we needed to construct an appropriate framework that would explain the dissolution of *this* IJV.

We therefore start from the observation that IJVs are more than strategic arrangements for entering markets, developing capabilities and acquiring resources; they are also mechanisms for confirming, extending and/or adapting the parents’ organizational identities. Within the IJV process, the parents are concerned with constructing an identity for their common object of ownership, the JVO. In seeking to shape the JVO identity, each parent directly or indirectly influences the other parent’s perceptions and constructions, a process made more problematic – and political – where the parent organizations bring to the IJV different cultural and institutional backgrounds. While all IJVs *involve* identity construction, some firms enter into IJV arrangements *in order to* transform or evolve characteristics that they have inherited from their pasts. *A priori*, this seems to be especially true of weaker parent firms which enter into asymmetric IJVs. Such an apparently inauspicious arrangement may be seen as an opportunity to change historically inherited characteristics that have become outdated.

The paper develops as follows. We first review the existing literature on IJV process, before examining how the theory of organizational identity construction can be adapted to the topic of IJVs. Having examined the background to the IJV case and explained the research methods used, we outline the findings in the form of an overarching narrative (Pentland, 1999) constructed from the respondents’ perceptions of the IJV process. Before bringing the paper to a conclusion, we consider how this case and theorizing IJV as organizational identity reconstruction add to the existing theory of IJV process.

THE IJV PROCESS

IJV research has tended to focus on establishing causal relationships between initial venture conditions – such as the balance of parental control and ownership – and IJV outcomes such as JVO growth, venture stability or dissolution. However, findings from large cross-sectional studies have been inconsistent: for example, over whether one-parent (Killing, 1983; Lecraw, 1984) or shared (Beamish, 1985; Blodgett, 1992) ownership or control leads to superior performance. Scholars have therefore been drawn

to more qualitative, longitudinal research into the complex internal processes that mediate venture conditions and outcomes. The resultant processual approach has concentrated on the processes whereby parents, in their interactions, *execute* the initial conditions (Ring and Van de Ven, 1994) and has identified two major IJV processes that affect the relationship between parents.

First, venture dynamics are seen to unfold through changes in the structure of inter-parental 'bargaining power' (Shenkar and Yan, 2002; Yan and Gray, 1994). From this perspective, a competitive parent can create instability with its partner through a series of 'micro bargains' (Hamel, 1991) that cause initial conditions to degenerate. Second, because the IJV is both the product of the knowledge and skills brought by each parent and a vehicle for each parent to acquire competences and resources that it had hitherto lacked, IJV parents have an opportunistic incentive to 'outlearn' each other. Inkpen and Beamish (1997) examine the relationship between learning, bargaining power and venture stability, when a parent, not satisfied with simply gaining access to knowledge, seeks to internalize its partner's knowledge. Winning the 'race to learn' alters the balance of inter-parental dependence and creates pressure to renegotiate the venture's initial conditions (cf. Parkhe, 1991; Yan, 1998).

Scholars argue that the parents monitor changes in the agreed initial conditions and make judgements about the functioning of the venture by applying two sets of criteria: technical-economic criteria ('efficiency') assess expected business performance and social-moral criteria ('equity') evaluate fairness, good faith and agreed mutuality (Ring and Van de Ven, 1994; Ariño and de la Torre, 1998). These judgements in turn affect important qualities of the inter-parental relationship, such as commitment (Fey and Beamish, 2000; Inkpen and Beamish, 1997), consensus and conflict (Shenkar and Yan, 2002; Yan and Gray, 1994), working rapport (Beamish and Banks, 1997; Yan and Child, 2002) and, most generally, trust (Child and Faulkner, 1998; Currall and Inkpen, 2002; Ring and Van de Ven, 1994).

In responding to the perceived changes, parents act to (re)align their relationship with the new 'reality', thereby creating an internal momentum along three possible paths. An *inertial* path (Doz, 1996) creates repeated, stable iterations that reproduce the initial conditions over time (Yan, 1998; Yan and Gray, 1994). When the initial conditions or developments are adjudged positively, the increased levels of trust may encourage parents to renegotiate venture conditions in an *accumulative* dynamic that amplifies learning and knowledge-sharing (Inkpen and Beamish, 1997) and enhances venture longevity (Parkhe, 1991). When initial conditions are adjudged to have been executed inefficiently or unfairly, an *obsolescing* spiral produces momentum towards dissolution (Hamel, 1991; Yan and Gray, 1994).

The IJV process literature makes an important contribution to understanding how initial conditions are related to outcomes over time through internal dynamics. However, there are two interrelated problems that this paper seeks to address. First, this approach does not examine how and on what basis the IJV parents make the judgements of equity and efficiency that lead to the re-evaluation cycle; that is, perceptions and interpretations are assumed rather than grounded in a theory of social action. We need to understand better the perceptual lenses that parents use and explain why they make their judgements about

IJV process. Second, although exogenous factors (e.g. changing business conditions) can trigger dynamic changes in the IJV process (Yan and Gray, 1994), the internal process is conceptualized as essentially evolutionary (Doz, 1996), thereby giving undue weight to structural tendencies built into the initial conditions (Hamel, 1991; Ring and Van de Ven, 1994; Ariño et al., 1998) and generalized cooperative or opportunistic motives attributed to the parents (Shenkar and Yan, 2002; Hamel, 1991; Yan and Gray, 2001). These combined assumptions predispose the IJV towards inertial, accumulative or obsolescing dynamics. We argue that the IJV can also undergo dynamic turns from within, disrupting this momentum and shifting the process in a different direction (cf. Miller and Friesen, 1980). By conceptualizing the IJV process as organizational identity construction and sensemaking, we develop a theory of IJV process that responds to these problems, complements existing theory and highlights the view of IJV process as a social accomplishment.

ORGANIZATIONAL IDENTITY CONSTRUCTION

In this section, we introduce organizational identity construction theory as a way of examining IJV process and outcomes. Organizational identity refers to the central, distinctive and enduring characteristics that members attribute to their own firm (Albert and Whetten, 1985). Within any large organization, there are as many organizational identities as there are coherent internal interpretive communities with shared values and experiences that permit the expression of relatively consistent views about its organization's 'essential being' (Townley, 2002). Organizational identity construction (OIC) is the process whereby members reproduce, amend or otherwise change these characteristics. In line with the conventions of OIC research, we concentrate on the identity work of top decision makers, whose 'symbols, visions, and perceptions... are more powerful than [those of] others' (Gioia et al., 1994, p. 365).

The process of organizational identity construction is created by senior managers through their ongoing negotiation with multiple internal 'stakeholders' (Pratt and Foreman 2000; Scott and Lane, 2000) and their mediation in the organization's environment (Dutton and Dukerich, 1991). Organizational identity is, therefore, more than a conceptualization of how senior managers see their organization; it is the perceptual lens, through which senior managers relate to their organizational world (Starbuck and Milliken, 1988; Scott and Lane, 2000). Senior management normally accomplishes this identity work routinely, but the organizational process can be disrupted by critical events. When information drawn from the business environment is interpreted by senior managers as discrepant with their organizational identity, they draw on their organizational identity to make sense of the ensuing confusion. Their 'construed external image' is constructed through the perceptual filtering of externally available 'information' about how external stakeholders perceive the organization (Dutton and Dukerich, 1991; Gioia and Thomas, 1996). Organizational identity is then affirmed or adapted as senior managers make sense of discrepancies between their organizational identity and their construed external images.

The role of organizational identity is also manifested in senior managers' actions to influence how external stakeholders perceive the organization. Whereas construing external images is an act of sensemaking in the light of the senior managers' organizational identity, their 'projected organizational image' results from acts of

sensegiving. Sensegiving reflects not only the extant organizational identity held by powerful internal actors but also their desired future image (Gioia et al., 2000). In short, organizational identity plays a pivotal theoretical role in explaining how senior managers perceive, interpret and interact with – make sense of and give sense to (Golden-Biddle and Rao, 1997; Balogun and Johnson, 2004) – the organization's external environment.

The IJV is a special multi-organizational case, for which the theoretical logic of OIC can be adapted. The IJV process takes place through the mutual efforts of the parents to define the common object of their ownership, the JVO. Just as OIC theory adopts the perspective of internal senior managers and focuses on the impact of external events through their perceptions and enactments, we put the local management's organizational identity at the centre of the theorizing process. We assume that there is an influential group of managers – the venture governance team (VGT) – with a remit to look after the interests of the local parent within the IJV. The members of the VGT are likely to be 'outsiders' to the JVO and owe strong allegiance to the parent's top management team (TMT), of which they might be members or to which they owe their position of responsibility. These senior managers are therefore likely to share the TMT's organizational identity and similar sensemaking and sensegiving practices.

From these assumptions, we can infer certain arguments about the IJV process from OIC theory. The local VGT's organizational identity provides the perceptual lens through which it makes sense of image signals emanating from its external environment. Of central importance is the foreign parent, whose decisions and actions in relation to the JVO – e.g. strategy announcements, knowledge transfers or resource allocations – convey implicit information about its intentions. The local VGT's perceptions and judgements are enacted through image projections on to the JVO and beyond towards the foreign parent. In giving sense to the JVO, the local VGT projects its desired future image; this is explicitly so where a local parent uses the IJV arrangement as an instrument for changing its own identity. These projected images put signals into the IJV process that can be read and interpreted by the foreign parent, which in turn responds in ways that can be construed (again) by the local VGT. In this way, the process goes full circle, realized in and through the conduct of the local VGT.

The local VGT's identity work can be understood from two angles. First, it is an ongoing process of social action and interaction, which routinely accomplishes the construction of organizational identity, until identity-image discrepancies provoke reconsideration. Second, identity work is an *ex post factum* process of social rationalization and legitimization, accomplished through the construction and dissemination of 'plausible' and 'legitimate' narratives that recount the IJV experience as part of the parent's evolving identity. These narratives, based on perceptions of real events, give retrospective accounts of how these common IJV experiences made 'us' what 'we' are (Clegg et al., 2007). IJV experiences are therefore both identity-forming and identity-confirming, and ongoing and retrospective.

RESEARCH DESIGN AND METHODS

The empirical work reported in this paper responds to repeated calls from scholars in the field for more qualitative case research that provides a rich picture of the IJV process (Parkhe, 1993; Doz, 1996; Child, 2002). The DeutschMotor-Autodil Joint Venture

(DAJV), one of the first examples of foreign direct investment (FDI) penetrating the Czech provinces, established a JVO – DM-Auto – which acted as a local magnet for further Western capital. Methodologically, DAVJ has the characteristics of a polar or extreme case, since its asymmetry and Autodil’s acceptance of the IJV as a vehicle for modernization, put identity construction at the centre of empirical study, thereby rendering ‘transparently observable’ the theoretical issues that we wished to explore (Eisenhardt, 1989; Yin, 2003).

Before World War Two, the Vysoký region had been a Sudeten German ‘island’, but its wartime occupation left local people with a special yet ambivalent attitude to Germanic ways. A large and successful automotive SOE in the pre-1990 command economy, Autodil suffered hugely from the collapse of its former East European markets and the withdrawal of state support, leaving management, reluctantly, to face up to making skilled workers redundant. When a government-funded enquiry concluded that the automotive industry could not survive without foreign capital, Autodil was omitted from voucher privatization (1991-1995) and finding a foreign ‘strategic partner’ became a central principle of corporate strategy.

In 1990, GEM, a large German engine manufacturer, was impressed by one of Autodil’s new product designs (Product X), but would not 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 in diverse engineering sectors in many countries. It was 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. The IJV agreement was signed late in 1990 and the venture conditions are summarized in Table 1.

TABLE 1 ABOUT HERE

Data collection and in-field analysis

We collected empirical materials during three field visits (six weeks) to Vysoký from June 2001 to May 2002. The project went through two major fieldwork phases. In the contextual phase, we collected historical, economic and social information in the local archives, conducted ‘contextual interviews’ with five leading political and business figures (E1-E5, see Table 2), visited enterprises and acquired documentary materials. In the second detailed phase (May 2002), we spent two weeks in Autodil 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/owners (DO1-DO5), five other senior managers (SM1-SM5), ten middle managers (MM1-MM10) and a trade union official (Table 2). The director/owners, who formed the VGT, were members of a powerful group known colloquially as the ‘seven samurai’. Six of them had joined Autodil in the early 1970s and held senior positions from the late 1980s;

the seventh (DO2) was an academic originally appointed by the post-socialist government to add independent expertise to the company.

TABLE 2 ABOUT HERE

In the interviews, we partly sought ‘factual’ information (e.g. dates, financial information, employment numbers), but a major aim was to examine managers’ experiences of the joint venture and its evolution. Data collection was an iterative process (Eisenhardt, 1989). Themes and issues from one interview were followed up in later ones, serving, through repetition, to increase confidence in our understanding of the IJV process, as perceived by members of the field (Yin, 2003). We continued interviewing until 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, touching systematically on the life of DAJV. 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 analysis away from the field. We started by devising data reduction tables to observe key concepts and identify key aspects of the IJV over time (Miles and Huberman, 1984). In this way, we could derive a chronology, induct an overarching narrative (Pentland, 1999) from the interview notes and to re-examine the embryonic second order interpretations. First, we analyzed the 22 interviews for evidence of the processes associated with venture establishment, venture operation, perceptions of DeutschMotor, critical events, dissolution and post-dissolution. ‘Factual’ information (e.g. dates and sequence of events) was checked against other sources, such as documents and contextual respondents’ statements. This unwieldy table was further simplified by identifying commonalities in narrative and expression. Once the role of these common perceptions became clear, we re-investigated the interview materials for evidence of organizational identity and projected JVO image.

From these methods, we were able to assemble an overarching processual account of the DAJV process in relation to OIC theory. First, the analysis gave us confidence that the director-owners (the VGT) could be said to constitute an interpretive community, and we were able to construct a picture of their organizational identity. Indeed, the evidence suggests that other senior and some middle managers held a similar identity. Second, we could put together the image that the VGT projected on to DM-Auto and how this related to their organizational identity. Third, and most important in terms of IJV dynamics, we were able to identify key critical events in the life of DM-Auto, when ‘normal’ routines were interrupted by perceived discrepancies between external events and organizational identity. Fourth, we could gather evidence about the sensemaking practices (e.g. the use of metaphors, reference to historical precedents) that the VGT used to give rationality and

legitimacy to their reading of DeutschMotor's conduct. Fifth, we could examine the VGT's sensegiving responses, through which they redefined their image of DM-Auto.

This process of analytical generalization (Yin, 2003) from these empirically grounded propositions forms the basis for our advocacy of an OIC theory of IJV process (Pentland, 1999; Tsoukas, 1989). This approach not only provides a theoretically optimal way of explaining our findings, but also deals with well-recognised problems of studying IJVs that have been dissolved. In such circumstances, it is often difficult to get access to both sides of the story (Shenkar and Yan, 2002). Whereas most researchers faced with this dilemma have tended to privilege the foreign MNC (Child and Rodrigues, 2004; Gomes-Casseres, 1987; Lecraw, 1984; Parkhe, 1991), we have examined the IJV process from the weaker local parent's perspective. Our argument follows the tradition of OIC theory by perceiving the total action from the perspective of internal management and shows how they, in their perceptions and actions, 'accomplished' the IJV process and its outcomes. Nonetheless, wherever possible, we have corroborated the basic elements of the story (e.g., dates, sequence of events and even the existence of rumours in the community) through independent sources, such as documents and contextual interviews.

Real-time longitudinal research was neither possible nor, given our aims, desirable. We have had the advantage of being able to assemble the whole story and the critical events within the process but, like similar studies (e.g. Shenkar and Yan, 2002; Ariño and de la Torre, 1998), had to confront the methodological problems associated with retrospective study. In this respect, we have followed Golden's (1992) advice about optimizing the accuracy of the retrospective accounts and the validity of the case study findings. We acquired multiple viewpoints by interviewing down and across organizational levels, used informed yet disinterested respondents to monitor possible self-serving responses, and drew on published and unpublished evidence to corroborate 'factual' information (Doz, 1996).

FINDINGS

In this section, we examine DAJV from its inception in 1990, to the founding of DM-Auto in 1991 and through more than four years of operation (1992-1996). DAJV was wound up in 1996, when DM-Auto was absorbed as a wholly owned subsidiary into the DeutschMotor's multinational framework. We start by outlining Autodil's identity and DM-Auto's image from the viewpoint of the local VGT which had been involved in establishing, monitoring and dissolving the IJV. Then we tell the story of DAJV as the interaction between the VGT's organizational identity and DM-Auto image and we examine how, through their sensemaking and sensegiving actions, the members of the VGT were implicated in the dynamic accomplishment of the IJV process.

Autodil's identity: the senior managers' view

The director/owners held a common view of Autodil, based on their shared historical experiences and ideas of Autodil's contemporary strengths and weaknesses. The empirical materials point to five major attributes of Autodil that made up its identity in the early 1990s. According to senior managers, Autodil valued working cooperatively with external partners and internal employees, to whom they felt a social commitment and responsibility. The enterprise was seen as a highly skilled, innovative precision engineering company, which had over a decade enjoyed increasing levels of strategic

independence. While proud of their history and culture, they felt that the enterprise was open to new ideas; indeed, this was the only way to adapt to the new business conditions. We give illustrative evidence of the derivation of these attributes and a concise interpretation of them in Table 3.

TABLE 3 ABOUT HERE

The Autodil's image of DM-Auto

For senior managers, DAJV offered a way of realising and developing their organization's identity. They projected a distinctive yet derived image of four main attributes that they wanted DM-Auto to have (Table 4). The DM-Auto would be a first experience of developing strategic cooperation with an influential MNC, and, in the shorter term, would secure production and employment levels in the parent company as well as directly employ Autodil workers who had become surplus to its needs. Senior directors and managers saw DM-Auto as both a reliable generator of profits, which would give Autodil access to much needed investment funds for modernising the plant, and a production facility for realizing Autodil's innovative, precision engineering designs.

TABLE 4 ABOUT HERE

DAJV's initial conditions

Despite the ownership and control asymmetry, Autodil's managers assessed the initial DAJV conditions (see Table 1) very positively and had clear expectations about how DM-Auto would work. In 1990, their 'catastrophic situation' (DO2) offered little choice and, anyway, DeutschMotor remained dependent on them for local knowledge, local resources and contacts, especially in relation to the labour market and political support. DAJV promised longer-term cooperation with DeutschMotor and senior managers expected the Germans to reciprocate. In the medium term, DM-Auto would be an arena for learning about modern management practices and would generate profits to plan for and invest in Autodil's future. With these formal structures and informal expectations, the IJV started operating early in 1992. As a former General Director (DO2) argued, '...it was very good at the beginning, like someone moving into the family as a friend'. But there were unforeseen problems ahead; to continue DO2's observation, '...then you discover that he [the new family friend] is looking at your wife and you have trouble'.

Critical events and process dynamics

The first-order accounts by Autodil's senior managers revealed four critical events, each of which provoked discrepancy between their construed external image and organizational identity. By challenging their understanding of Autodil and DAJV, these critical events prompted both sensemaking and sensegiving responses that created internal dynamics.

Critical event 1: poaching labour (3-9 months)

According to the initial conditions, Autodil had control of the transfer of workers to DM-Auto and Autodil managers had clear expectations about how this recruitment would be managed.

We expected a transfer of employees... [There] were only supposed to be 250 jobs [in DM-Auto] – 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 DM-Auto? ...Usually they were younger [employees]... (DO3)

However, soon after operations began, there were some unexpected incidents. Within months of opening, the movement of labour from Autodil to DM-Auto had become what DO3, with hindsight, called ‘poaching’. Senior managers reasoned that DM-Auto’s personnel manager, a former Autodil manager, was able to offer higher wages to attract the most skilled and experienced employees and this created practical disruptions in Autodil’s production processes. In making sense of this unexpected turn of events, some Autodil managers felt that DeutschMotor’s hiring practices indicated plans and intentions that contradicted values and commitments central to Autodil and DM-Auto. Poaching was thought to contravene managers’ expectations of looking after their own employees and securing stability from DAJV. During these ‘terrible years’ (DO2), key employees began to demand wages to match those of their former co-workers; rising labour costs and employee power created an internal crisis of production quantity and quality in Autodil.

These managers felt that Autodil were being treated unfairly and wanted to take direct action with DeutschMotor to clarify their intentions. However, while some seeds of doubt were sown among senior managers, the VGT, by reproducing their image of DM-Auto, re-affirmed their relationship with DeutschMotor.

Critical event 2: making losses (12-18 months)

As DO3 explained, ‘...we expected a profit, [and] we needed the money for investment [in Autodil]’. DM-Auto, as direct recipient of DeutschMotor’s expertise, would not only offer lessons on which to model a revitalized Autodil, but also be an opportunity to generate profits that could be invested in new technologies and know-how within a modernised company. Yet, after its first full year of operation, DM-Auto not only failed to post a profit, it actually declared a loss. On investigation, Autodil’s directors discovered that the German parent had adopted a transfer pricing strategy, selling DM-Auto’s products below cost to DeutschMotor, which sold them on to its customers at a profit that was realized in Germany. According to DO4, ‘DM-Auto showed a perpetual loss – [the joint venture became] an exercise in debt management’. MM1 agreed: ‘for every Deutschmark that Autodil gave DAJV, DeutschMotor took two’.

Autodil’s managers had not anticipated the losses and many construed them as resulting from a unilateral exercise of power by DeutschMotor, which was contrary to their own values and those projected on to DM-Auto. This was not the behaviour they associated with long-term cooperation and further eroded the qualities they had assigned to the venture. Autodil’s senior management was forced again into sensemaking overdrive and their re-evaluation of DAJV and DM-Auto led to some stark conclusions.

Change of philosophy

DeutschMotor’s actions were interpreted as attempts to exert control over DM-Auto in ways that would inhibit Autodil from realizing its ambitions. The two critical events not

only eroded the VGT's understanding of the initial conditions and provoked questioning of the path they were following; it also hinted that DeutschMotor had alternative motives and were pushing DAJV in another direction.

'After two years or so, their philosophy [seemed to have] changed, because we [were denied] influence in DM-Auto. The joint venture [and we] always showed losses; [yet DeutschMotor always] made profits from it in Germany' (DO3).

The 'realization' that DeutschMotor had undergone a change of philosophy was epiphanic. Some managers believed it to be a genuine change in strategy arising from DeutschMotor's changing circumstances. Others were more cynical construing from the critical events that Germans' 'real' strategic intentions may be predatory. In a sense, their 'real' motives did not matter, because, from this moment the events created by DeutschMotor's decisions would be construed in a very different way. Autodil's espoused openness to new ideas would from now on be predicated on a 'less naïve' (DO2) perspective. In making retrospective sense of external events, Czech managers reached for various metaphors, many located in local and national mindsets e.g., 'colonialism', 'military occupation' and 'master-servant relationships'. Constructing the story using these narrative devices effectively screened out other possible explanations of DeutschMotor's behaviour.

Readjusting their organizational identity and projected JVO image to be consistent with construed external image led to a definitive change in the VGT's understanding of how DeutschMotor saw DM-Auto and, by extension, Autodil. Autodil managers' new realization affected not only their explanation of past events, but also predisposed their reading of future ones and their likely actions towards the IJV and their German partner. Short of something unusual happening, a new internal dynamic was set and the IJV would be perceived differently, creating obsolescing pressures towards dissolution.

Critical event 3: expansion outside the JV (2½ to 3½ years)

In the spirit of cooperation, Autodil's directors had used their social and political networks to put DM-Auto's German management in contact with influential local politicians and officials. In early 1995, the municipal and regional authorities granted DeutschMotor land and tax exemptions to subsidize the building of greenfield factories with other partners to produce new automotive products. Rumours were rife that the MNC intended to expand its employment in the region to 11,000 people. These decisions and the associated rumours intensified the VGT's suspicions by raising the stakes in the already tight labour market for experienced engineers, making it immensely difficult to fulfil Autodil's ambitions to build their reputation on innovative precision production. Autodil's management interpreted this external information as a sign of 'aggressive competitiveness' (DO2) in labour and product markets that would threaten Autodil's existing and future identity. This interpretation reinforced the emerging image of DeutschMotor as a strategically expedient rather than long-term cooperative partner.

Critical event 4: new capital injection into DM-Auto (4 years onwards)

Twelve months before final dissolution, DeutschMotor announced its next strategic step – a fourfold increase in its capital investment in DAJV to develop new product lines to replace Product X. DM-Auto's new products would be introduced from DeutschMotor's

German facilities and would sever the JVO's direct relationship with Autodil's product development activities.

We sold our shares to DeutschMotor, because [their] very expensive plans... were not acceptable... Without injecting capital, we would have atomized our share of the joint venture... we would have had no power and just had to stand and watch (DO1).

From the VGT's perspective, this kind of expansion contravened virtually everything that Autodil stood for and changed the nature of DM-Auto. It had been an exercise in unilateral decision making rather than cooperation; the creation of a bigger JVO challenged Autodil's influence over employees' welfare and its responsibility within its community; the expansion through imported products denied DM-Auto's status as an outlet for Autodil's innovative traditions and prospects; and, by becoming the dominant player in the local labour market, DM-Auto threatened Autodil's ability to retain and recruit skilled engineers and develop its own production capabilities. Autodil's management felt 'powerless and passive' (DO2); they did not have the funds to increase their shareholding in proportion with DeutschMotor's proposals and it made no business sense to invest more money in a loss-making enterprise. It took six months of hard bargaining to 'negotiate ourselves out of the [joint venture] arrangement' (DO1).

Conversations with contacts within the Czech business community suggested that DeutschMotor had developed a *modus operandi* in their joint ventures. DO3, the director who had led Autodil's dealing with DeutschMotor throughout the IJV's life, perceived 'an efficient philosophy [at work:]...establish a joint venture, stabilize it, acquire local labour, buy the venture out... and *konec* [the end]'.

DISCUSSION

Process scholars have identified the importance of changes in power balances, competition and cooperation for knowledge and deteriorating relationship quality to understanding the IJV process and our empirical work offers evidence to support this approach. Yet our findings also reveal aspects of IJVs that have hitherto been neglected. In particular, our arguments highlight the theoretical benefits of examining the internal processes in terms of organizational identity construction, which promotes the role of sensemaking in the active social accomplishment of the IJV process and, in its focus on identity-image discrepancies, allows a more satisfactory explanation of dynamic turns. In this section, we explore these theoretical arguments and their contributions to thinking about IJV processes.

OIC, sensemaking and IJV process

The strategic and operational image that Autodil's VGT projected on to DM-Auto was an extension of its organizational identity and the IJV was consciously seen as an opportunity to modernise it. From the start, Autodil's senior managers implicitly trusted their German partner to execute the JVO in conformity with initial conditions, thereby supporting Autodil's modernisation ambitions. From the positive momentum established, understanding why DAJV was dissolved requires that we tackle the problem of process dynamics. The theory of organizational identity construction increases the range of conceptual tools and scope of theoretical reasoning available to explain why and how a stable process became an obsolescing cycle.

Organizational identity equips the VGT with a perceptual lens, through which it construes the events produced by the other parent organization. As long as the other parent's decisions and actions produce 'normal' events, they will go unnoticed and the IJV process will continue on its evolutionary path (Doz, 1996). Critical events, on the other hand, are not just empirically notable; they are theoretically significant occasions, when actors are confronted with unforeseen contraventions of their identity, through which their organizational and managerial lives are made meaningful. Critical events, that is, provoke sensemaking and sensegiving activities that have the social energy and force to change the direction of an otherwise stable process.

Our empirical findings strongly support this dynamic role of sensemaking within the IJV process. Although the concept of sensemaking has been applied in processual theorizing about IJVs (Ring and Van de Ven, 1994), its role has been largely underdeveloped. Sensemaking involves, but is more than, judgements of equity and efficiency. Autodil's VGT was concerned about whether DeutschMotor had acted fairly in its decisions about DM-Auto; it also construed discrepant images in terms of their impact on Autodil's profitability and investment prospects. However, these judgements are not made from nothing – they should be comprehended as reflections of the VGT's organizational identity. Moreover, sensemaking is not a passive process (Weick, 1995). The perceptions and interpretations of critical events affect the IJV process through sensegiving actions that project – reinforce, adapt or change – the way the VGT sees the JVO. These projections, in turn, put meaningful signals into the IJV process that can be perceived, interpreted and further enacted in projections by the foreign parent. For example, in the DAJV case, DeutschMotor's VGT *may* have perceived and interpreted Autodil's changing attitude towards DM-Auto as a weakening of commitment rather than a 'justifiable' response to DeutschMotor's decisions; in turn, DeutschMotor's sensegiving responses may have led to new critical events that were then construed as discrepant by Autodil's management. Such a vicious circle of mutual perception, interpretation and enactment creates a tendency to venture instability and likely dissolution. In our view, the dynamics of sensemaking and sensegiving within the IJV process deserve to be more fully articulated.

OIC, interpretive watershed and dynamic turns

From our empirical materials, we can infer another important theoretical argument that enriches our understanding of the internal dynamic – the reaching of a dynamic turning point and its consolidation into momentum. Autodil managers recognized very early on that something about the IJV was amiss, though the VGT's sensemaking led them to rationalize discrepant signals and thereby reproduce the initial momentum. However, when the VGT was no longer able to sustain its existing interpretations, an epiphanic moment of clarity was reached. From the perspective of their organizational identity, Autodil managers now construed DeutschMotor as working according to a different 'philosophy', in contravention to their expectations.

We propose that a dynamic turn follows an 'interpretive watershed', which provokes a radical re-evaluation of the venture and launches the IJV process in a new direction. In the DAJV case, this interpretive watershed coloured all future perceptions and actions and, over new sensemaking-sensegiving cycles, established a strong momentum in favour

of a downward spiral. It is important to emphasize that both momentum and dynamic turns have to be socially accomplished within the IJV process – they do not ‘just happen’ as a result of structural tendencies. We believe that this concept of an interpretive watershed is worthy of further theoretical and empirical exploration in the context of IJV dynamics.

Post-IJV identity reconstruction

Our approach surmises that the IJVs always involve the reconstruction or reconfirmation of organizational identity, whether as a conscious intention or as a latent consequence. In our case, Autodil management used DAJV as a way of changing its identity and willingly adopted a formally subordinate role as a price worth paying for being associated with an economically and politically powerful MNC. Here, we reflect briefly upon the retrospective process of identity reconstruction that followed the dissolution of their IJV.

In order to make sense of the dissolved IJV as an identity changing experience, the Czech managers drew heavily on the existing repertoire of local and national discourses. In particular, they used popular metaphors and historical allusions in order to construct narratives that gave credible accounts of their ‘failure’ – though this was often turned in language that attributed blame elsewhere, protested inevitability or claimed ‘success’. In their retrospective accounts, DeutschMotor almost always played the role of the villain and Autodil the role of victim. Our materials are peppered with metaphors like colonialism, occupation and war, in which respondents likened DeutschMotor to a ‘colonialist’, a ‘strong and big dictator’ and a conqueror. In contrast, Autodil managers saw their ‘own sad fate’ as being ‘incubators’ of talent and the ‘new servants’ – diverse references to the Czech reputation for passivity in national history and culture. The still living memories of the German occupation during the Second World War and the more distant historical significance of the Austro-Hungarian Empire were particularly resonant given the nationality of DeutschMotor.

While these narrative themes helped to make sense of the whole IJV experience as history and gave vent to their shared frustrations, DAJV had also had a reformatory effect on Autodil’s identity. All the managers believed that the company was stronger and better prepared as a result of their relationships with DeutschMotor. As ‘students’ of international business under the ‘tutelage’ of the German MNC, they had had to learn quickly about quality, finance and modern management and had benefited from moving in international circles with a reputed company. But most symbolically, they had learned about being the dominant partner in an international strategic alliance; DO3 joked that when Autodil establishes a joint venture in the Ukraine, it would adopt the same ‘very efficient philosophy’.

CONCLUSIONS

In this paper, we have extended our understanding of the IJV process and the IJV’s vulnerability to dissolution by applying the theory of OIC. The resultant processual framework theory has strong characteristics: first, it is consistent with existing process theory that explores the relationships between shifts in bargaining power, learning and relationship quality to examine how IJVs evolve; second, it addresses two theoretical problems with the existing approaches.

First, process theory has paid scant attention to how parents make judgements of equity and efficiency, which are the critical link in the process that connects the execution of initial conditions and evolutionary renegotiation. In this regard, we argue that senior management draws on its organizational identity as the perceptual lens, allowing us to explain how these managers construe the events constructed by other actors in the external environment, notably the other parent company. Using organizational identity to make sense of external events and give sense to the JVO through projecting external images, the VGT's actions link phases in the IJV process and accomplish IJV outcomes.

The second problem reflects the preference of process theory for focusing on the evolutionary and immanent characteristics of the IJV initial conditions, which has resulted in a relative neglect of dynamic turns within the process. In our approach, critical events provoke active sensemaking by creating a discrepancy between the senior managers' understandings of the JVO and their perception of how the other parent organization sees the JVO. Such discrepancy creates the conditions in which the course of events can change direction. At a moment when this discrepancy becomes unsupportable by the organizational identity, there is an interpretive watershed, because it defines a moment of epiphany when historical events are subject to reinterpretation and future events are likely to be different from the past.

This approach to the reconstruction of organizational identity within the IJV process puts social actors, social actions and meanings at the heart of IJV process. It is actors' identities, and their acts of sensemaking and sensegiving that construct the pathway whereby the IJV moves from inception, to execution, to re-evaluation, to re-negotiation and, ultimately in our case, to dissolution.

Our research adds to the qualitative studies conducted on IJV process and offers work that explores the complexities and nuances of international management. But this remains a minority area of IJV research compared with the large-scale cross-sectional studies that adopt more structural approaches and quantitative methods. Still underrepresented in IJV research is an understanding of the aftermath of dissolved IJVs, though we have briefly addressed this issue as a question of retrospective identity reconstruction. More research is needed to explore the ways in which former parents – but especially local, non-MNC parents – build on their IJV experiences.

¹ All names used in reporting this research have been changed in order to preserve the confidentiality of our respondents.

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TABLES

Autodil to provide	DeutschMotor to provide
1. 140 million crowns (plant, land, buildings)	1. 443 million crowns (capital)
2. Technically skilled workers	2. New technologies
3. Cheap production costs	3. Management know-how
4. Good location	4. Quality standards and systems
5. Parts to be assembled	5. Access to client networks
6. Product blueprints and patent for Product X	6. Access to supplier networks
7. Access to local networks	7. International reputation
8. DM-Auto's Technical Director	8. DM-Auto's General and Financial Directors

Table 1: Initial contributions to DAJV

Respondent identity number	Organizational position in 2003
Director/owners (VGT members)	
DO1	Production director, Chair of Board of Directors
DO2	Chair of Supervisory Board
DO3	Finance director
DO4	Personnel director
DO5	Commercial director
Other Senior Managers	
SM1	Plant manager
SM2	Quality director
SM3	Plant manager
SM4	Legal advisor
SM5	Supervisory director
Middle managers or employees	
MM1	Marketing
MM2	Sales
MM3	Development
MM4	Designer
MM5	Marketing
MM6	Technical
MM7	Coordination
MM8	Marketing
MM9	Finance
MM10	Accounting
TU1	TU director
External respondents	
E1	Chamber of commerce
E2	Regional authority
E3	Enterprise marketing manager
E4	Enterprise commercial manager
E5	Municipal development

Table 2: The respondents

Attributes	Typical quotes	Interpretation
Cooperative values	<p>We have the same [power] advantage [as DeutschMotor] in India...but we would not treat the Indians in the same [autocratic] way (DO2)</p> <p>The Czech and Autodil approach to management is based on cooperation and working with people (MM9; former director)</p> <p>The directors tried to make a democratic enterprise... to involve everyone (MM7)</p>	<p>As a former SOE, our internal and external management has been based on the principle of progress through cooperation. We expect our employees and those we do business with to treat us as equal partners, despite there being power differences</p>
Social responsibility to employees and community	<p>The success of the company is the result of the daily work of people...[and] we wanted to keep the company going, because we have some social feeling, you know. There were 5,000 people in Autodil, the largest employer in the region, and it was impossible to seal their fate (DO2)</p> <p>Motorpal was the largest company in Vysoký and [needs to care for] the region (DO3). Socialism is still here, it is also in other companies. With a foreign partner, things could [have] change[d], so [directors] behave the same way... [and] the changes have been much slower (SM3).</p>	<p>Our company has been successful in the past and will be in the future because we nurture our work force and their families. Their loyalty to us demands that we care for them, even if there is a bottom line cost.</p>
Competence as skilled, precision engineering company	<p>Autodil is a specialized producer, we have good quality but a lower price... The technical level of manpower is very good (DO1)</p> <p>We are a high precision, not mass production company... (DO2)</p> <p>Employees in Autodil were in demand by other enterprises because of their expertise...The company [has always] had a high level of production quality (DO3)</p> <p>Our reputation is for R&D and new product development, but restructuring and lack of funds stopped this (MM7; former director)</p>	<p>Our identity reflects the skills and expertise held within the company, and these in turn result from our long history – and future prospects – as a precision engineering company. The life blood of Autodil is our ability to develop new products and produce them at high quality and reasonable price.</p>
Strategic autonomy	<p>From 1985 onwards, there was almost no political power exercised over the enterprises, so senior managers could do what they wanted (DO5)</p> <p>We develop solutions from our existing knowledge... We don't need [someone else's solution], we need a strategic investor with capital, a market position and an image (DO2)</p> <p>The name of Autodil must be known...as a [distinctive] company, not just as a supplier [to others] (SM3)</p>	<p>For many years, we have controlled our own destiny, mostly because of the engineering traditions and the excellence of our products. We wish to continue to exercise our autonomy, even though the external support of foreign firms may be necessary to finance our excellence.</p>
Openness to change and learning	<p>We made products for the military, for Russia – we were a strategic enterprise (MM1)</p> <p>It was clear what should be done internally in companies in the Czech Republic...[Things had to change], it's part of the culture at Autodil, we must fulfil the duties [of a market economy] (DO2)</p> <p>The General Director says that good habits and traditions should be kept and we must take on all good examples [of practice]... We didn't know in 1991 what was going to happen – the situation was very difficult and the solution was to go day-by-day, step-by-step, week-by-week (DO4)</p> <p>But the level of managers was the main problem...It was difficult [to get to grips with the new reality] (DO1)</p> <p>From 1989-1993 it was like the French Revolution. We lost our customers and had to find new ones. Then we had to find new processes and technology, then adapt them... (DO5)</p> <p>We're inexperienced in marketing and must learn (MM2)</p>	<p>Although our traditions define much of what we are and want to become, in the changed circumstances of post-socialism we need to acquire new competences, especially in the management functions. We can only adapt by having this openness to new management ideas and new technological processes.</p>

Table 3: Autodil's organizational identity

Attributes	Typical quotes	Interpretation
Gaining long-term strategic cooperation	<p>We had a history of cooperation with DeutschMotor going back to 1960s, so we had high hopes. Management was keen to find a long-term strategic partner and the state put pressure to get the funds from privatizing Autodil. DM-Auto was seen as a step towards these aims (DO3)</p> <p>Unfortunately we had weak financial power, so we needed new strategic partners (DO4) Autodil did not stand a chance to develop [modern products], because it was independent and did not participate with nor was a member of any multinational company (MM9)</p> <p>We were looking for a strategic partner, not a strategic investor who puts in money for [short-term] profit. A strategic partner offers technological help, shares markets and solves technical problems (DO2)</p>	<p>The IJV is the first step towards finding a long-term strategic partner that would respect Autodil's values and traditions while making a commitment to invest. This is a natural extension of its own organizational identity.</p>
Securing production and employment	<p>We needed a joint venture because the automotive industry [our former clients] in Czech Republic was in a mess [and we had to secure business]. For DM-Auto, Autodil was the supplier of components and parts to be assembled and even looked after services for the JV... We had the positive image of our partnership with DeutschMotor and had assurance over work for 'our' employees... it was another way of keeping production going. (DO3)</p> <p>We [primarily] wanted employment for our employees and the development of the corporate economy because of our loss of Czech and Eastern customers (DO5)</p> <p>We cooperated with DeutschMotor but we continued to produce the same products. At the beginning of the 1990s, DM-Auto gave Autodil more work (SM5; former director)</p> <p>A lot of employees found employment in DM-Auto during 1993/4 (MM2)</p>	<p>The activities of DM-Auto would be a guarantee of a proportion of Autodil's production – supplied to support Product X – and therefore of Autodil's workforce. DM-Auto would also employ many of employees who became surplus to Autodil's post-socialist requirements. This attribute derives directly from Autodil's own values.</p>
Acquiring funds for investment in Autodil	<p>DM-Auto was a means of generating profits for future [investment in] Autodil. The millions that we invested in it were useless [unless we got money] in order to invest (DO3)</p>	<p>DM-Auto, with the help of DeutschMotor's distribution networks and reputation, would manufacture and distribute Product X. Autodil managers projected expectations on DM-Auto regarding its profit-earning capability. The joint venture's profits would be used to invest in its own production processes.</p>
Realising Autodil's innovative and precision engineering skills	<p>We had developed [Product X] for GEM and we had a strategic plan for [selling them to] Russia. This product became the business plan for the joint venture (DO5)</p> <p>DeutschMotor didn't have the [product] technology that Autodil had developed...The joint venture obviously had possession of the rights to manufacture [the products] (MM7; former GD)</p> <p>[The joint venture] was an opportunity to realise Autodil's inventiveness. We could only exploit the invention by cooperating with DeutschMotor (DO3)</p> <p>[Working with DeutschMotor] led to some modification of the original design – we had to meet DeutschMotor's specification [though much of this was unnecessary]. DeutschMotor insisted that 'you must use this design' (E3; former middle manager)</p>	<p>DM-Auto was seen as an extension of Autodil's precision engineering tradition and ambitions. Though it might be essentially an assembly plant, it would assemble products that would express Autodil's innovative engineering capabilities.</p>

Table 4: Autodil's projected DM-Auto image