

Disparate Sensemaking to Develop Successful International Joint Ventures (IJVs) -- Implications for the One Belt One Road Initiative

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ABSTRACT

In this paper, we focus on the development of International Joint Ventures (IJVs) in the Sino-Western context. A longitudinal qualitative study was conducted that scrutinized the development of an IJV partnership between a Chinese and a Western firm (both large and successful firms in their respective countries). Despite the success in their domestic markets, both firms found it challenging to leverage their business through the IJV. In the paper, we outline the key issues in the development of IJV partnership – namely communication management, legal issues and navigating culturally different expectations and approaches to strategizing and organizational processes - and discuss how each partner's individual sense making about these dimensions contributed to the misalignment between the firms. Based on this analysis, we offer a set of recommendations for developing successful IJVs – such as simplification of contracts and allowing time for contracts to mature. Given the focus of the conference, we also focus on the role of standards in the development of IJVs. In the final part of the paper, we link the results to the OBOR Initiative.

Keywords: International Joint Ventures, One Belt One Road Initiative, Sensemaking, Sino perspective, Western perspective, China

1. Introduction

Large infrastructural and development projects (such as One Belt One Road Initiative - OBOR) rely on cooperation between individual firms. International Joint Ventures (IJVs), which rely on establishing a close and strong relationship between partners, have emerged as one of the ways to cooperate. Even though this form of cooperation has become very popular, it is also a challenging way to cooperate – especially when business partners come from different cultures with different expectations on how to conduct business.

In this paper, we study the development of an International Joint Venture (IJV) between a Chinese and a Western firm. A longitudinal case study approach was conducted with the data being collected through observations during negotiations and subsequent interviews with key negotiators. A total of 2220 minutes of interviews and observations were analyzed to identify the key issues in the development of the IJV. Unlike many previous studies that rely on post-event recollection of data, the first author's direct participation in the events made it possible to capture the unfolding (and often) frustrating nature of the negotiations. At the same time, the findings from the study allowed us to formulate a set of key recommendations to improve the quality of engagement in international collaborations such as the one studied. In practical terms, the paper shows how the lessons from an IJV development might be employed within the OBOR initiative.

2. Literature Review

The literature reveals that there are three major research gaps in the study of IJV. First, studies scant attention has been paid to the degree and the dimensions of IJV collaboration (Yan et al., 1994; Yang, 2011). In addition, previous studies of the relationship between partner company control and IJV performance have produced ambiguous and inconsistent results (Darabi & Clark, 2012; Geringer & Hebert, 1989). This may have been caused by a number of factors, such as the differences in research settings and the lack of clarity regarding the perspectives the researchers used to measure performance (e.g., whether they used the perspectives of one parent company, both parent companies, or the IJV's management team); the particular combination of subjective judgments and financial indicators involved in performance measurement; and the choice of what methodology should be adopted as the appropriate measure of IJV performance (see Yan et al., 1994).

Second, empirical studies of the relationship between IJV management and performance are still rare, and thus this topic has generated controversy (Li et al., 2009; Yan et al., 1994; Yang, 2011). For example, in a study of IJVs between developed country partners, Killing (1983) found that the relationship between management control and performance was U-shaped. When one parent was dominant in the management of the venture and performed better than the other, this structure led to poor overall IJV performance. Lecraw (1984) used a sample from joint ventures in five developing Asian countries and found that the relationship between management control and performance appeared more likely to be positive and linear. In contrast, Geringer et al. (1989) argued that the relationship between control and performance is not simply linear, but rather discursive, due to the influence of contingent factors. Yan et al. (1994) conducted case studies of Sino-U.S. IJVs and found that when the management system, decision-making process, and strategy practices of a joint venture were similar in structure to those of one partner in the IJV, that partner exercised a higher level of overall control than its partner. Similarly, Kobernyuk, Stiles and Ellson (2014) more recently found that replicating a foreign partner's structure and culture in Russia led to better performance than relying on indigenous configurations. Such variations in research results have posed problems for cross-study comparisons and failed to provide a consistent framework for further research (Geringer et al., 1989; Yan et al., 1994; Yang, 2011).

Third, findings about the influence of dynamic elements (e.g., strategy practitioners praxis and strategy practices) on collaboration and IJV performance have remained underdeveloped (Yan et al., 1994). Although some studies were conducted in the 1990s (e.g., Beamish, 1993; Newman, 1992; Teagarden & Von Glinow, 1990), more recent empirical findings on the dynamic relationships amongst IJV partners, strategy practice, and the lived-in experiences of collaboration have been insufficient, especially with regard to how culturally influenced social and behavioral practices impact on Sino-Western IJV strategizing and the control of board decisions.

3. Research Enquiry

Using a case study approach, the study reported here produced an analysis of the development of an International Joint Venture (IJV) in the dairy industry involving partner companies from New Zealand and the People's Republic of China. The aim of this study was to understand how different communication protocols and practices shaped the IJV development from the perspective of those who were responsible for managing the inter-firm interface. An inductive form of analysis was chosen as this approach aligned with the objective to understand the communication protocols and practices in an IJV from the key actors' perspectives rather than by the application of a pre-emptive conceptual framework. Observations and interviews provided the data for the study. The first author was a participant observer at three inter-organizational meetings. Particular attention was paid to how representatives from each company interacted with each other and with representatives from the other company. Interviews were then conducted to establish what sense participants made of these and other similar meetings.

In these interviews, participants were asked to provide accounts of their experience of communicating at the inter-firm interface. These accounts were compared to understand the similarity and differences of actors' expectations and experiences of communication and how their communication experiences at the inter-firm interface shaped strategic decisions and how these then played out in the operation of the international joint venture. Thirty face-to-face interviews varying in length from 35 to 75 minutes were

conducted. Each participant was interviewed at least 3 times. These interviews were conducted at each partner's headquarters, in China and New Zealand respectively. In total 2220 minutes of interviews were transcribed. The interview data were supported by observations of daily operations, including strategy meetings.

Table 1 Participants in the study

		Company	
		New Zealand Case (n=20)	Chinese Case (n=10)
Gender	Female	60% (n=12)	30% (n=3)
	Male	40% (n=8)	70% (n=7)
	Total (n=30)	67% (n=20)	30% (n=10)
	Average age (Years)	33	36
	Average employment /contracted service (Years)	2	12
Total time of Interviews (hrs)	37	22	15

4. Results & Analysis

The main feature of the development of the International Joint Venture (IJV) between the firms was clearly the misalignment across various aspect of the development of the partnership. For that reason, the results and the analysis are firstly presented from the perspectives of each partner. These were then followed by discussions about the misalignment between these perspectives. The results are summarized in Appendix 1 and are clustered using the following issues:

- Communication: how did each of partner approach communication during the development?
- Negotiations: what approach did each partner take in negotiations during the development?
- Legal: how central was the contract to each partner's approach?
- Culture: how did each of the partner view the role of culture in the development of IJV? How did they perceived their culture and the culture of their partner? To what extent did differences contribute to problems during the development of IJV?
- Strategizing: how did both partners strategize during the development?
- Organizational processes: how did organizational processes contributed to misalignment of the development of the IJV?

5. Overcoming the Misalignment and Implications for OBOR

The development of International Joint Venture (IJV) is important to the development of international business and will without a doubt be a significant part of the One Belt One Road (OBOR) initiative. In this paper, we have presented results of the research that investigated the development of IJV in the Sino-Western context. The research has pointed at number of issues that contribute to difficulties in joint venture development; such as misalignment in communication and strategic direction of the partnership. To overcome the issues, we propose a set of solutions – please see the overview in Table 2.

The findings suggest the policy makers and planners of the OBOR Initiative need to carefully consider their approach to developing partnerships within the OBOR. In particular, we suggest that the OBOR Initiative formulates a plan for managing the development of partnerships within the OBOR Initiative and also provides training and advisory services to firms creating IJVs. To that end, this paper highlights key issues and makes recommendations based on an in-depth longitudinal case study into the development of a IJV. Given that it is not possible to generalize from a single case study we can only claim the research

provides insights into the IJV development and then only in the Sino-Chinese context. Further research will be necessary to confirm the findings and ensure they are relevant to the development of IJVs between partners from the OBOR Initiative countries and their Chinese counterparts.

Implications for practice when developing IJVs in OBOR

Table two summarizes the implications for practice in IJVs that emerged from this case study.

Table 2 Overcoming misalignment in International Joint Venture (IJV) Development

Issue	Solution
Communication	<ul style="list-style-type: none"> * Key players from both partnering firms need to allow more time to ensure that their communication practices and expectations can be aligned across the inter-firm interface * The importance of making a concerted effort to improve communication and give more consideration to partner's needs and expectations
Negotiations	<ul style="list-style-type: none"> *Face-to-face meetings of partners' management teams should be arranged before entering a collaboration to enable a better understanding of each other and to highlight differences
Legal	<ul style="list-style-type: none"> *Both partners need to ensure that the decision-making processes, both at board and operational level, are well defined, documented and agreed to
Culture	<ul style="list-style-type: none"> *It is important to recognize that the level of perceived misalignment can change over time and is influenced by perceived outcomes of the partner's performance in an IJV collaboration.
Strategizing	<ul style="list-style-type: none"> *It is important to take time to ensure that partners' strategic outlooks are well aligned and to agree on the timeframe in which important milestones will be completed *Ensuring that the decision-making process, both at board and operational levels, is agreed and documented
Organizational Processes	<ul style="list-style-type: none"> *Partners needed to recognize any misalignment and make mutual concerted efforts to address related issues and resolve potential conflicts or any existing problems that have become apparent in the collaboration

Finally, we would like to stress that this case study highlighted the need to understand the difficulties IJV face in terms of legal arrangements and the need to simplify contracts and make them useful to all participating entrepreneurs (see for instance Burton, 2018) for the discussion of legal contracts). Our findings also suggest that the cooperation and connectivity required in the development of IJVs would be enhanced by the development and adoption of international standards (see OBOR, 2016; Castka, 2018). Management Systems Standards as well as product standards (Castka and Corbett, 2015) would have been valuable factors in the alignment of the IJV partners, their communication. We suggest this will also be the case in OBOR projects.

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Authors' Background

	<p>Dr Lilly Zhao is the Founder of Landing Zone, including strategic solutions, café and creative solutions. She is a Chinese born New Zealander. Dr Lilly has spent last 15 years in New Zealand to work on her research and as a business consultant for numerous companies. Her specialty in intercultural communication and joint ventures collaboration motivated her to set up consulting company in 2013. Her passions of practicing yoga plus coaching people to establish a healthy and happy life style drive her to found Landing Zone Café in 2017 to provide great food and coffee through a network of enthusiastic entrepreneurs who love quality coffee and organic food. The company now broadens its scope, providing creative solutions and services to people enthusiastic about healthy and happy lifestyle and searching for spaces to unleash their creativity – in personal development and in business. Her aims are to encourage and embrace all age of people who want to improve the quality of both personal and business lives.</p>
	<p>Prof Mills is a Professor at the UC Business School, University of Canterbury, New Zealand and an International Faculty Affiliate at Audencia Business School in France. Her research interests focus on the management of organizational behavior, especially communication and sense making, during times of uncertainty and change (e.g., organizational restructuring, CEO succession, business startup, natural disaster). Colleen focuses particularly on management at critical interfaces, both within and between organizations. Recently completed studies have explored (1) the role of materiality such as mundane tools and workplace setting in implementing global strategic change at the frontline and (2) business startup and organizational development in the creative industries and (3) disaster communication during the Canterbury earthquakes. Colleen is the Editor-in-Chief of Communication Research and Practice and until recently was a Board Member of the International Communication Association.</p>
	<p>Prof. Pavel Castka is a Professor in Operations Management and Sustainability at UC Business School, University of Canterbury, New Zealand. He formerly served as Research Director of the College and MBA Director and had visiting appointments at UCLA Anderson School of Management (USA), University of Salford (UK), BOKU University (Austria), Vienna School of Economics and Business (Vienna) and is currently a fellow at Peking University (China). Dr Castka has been actively involved with international standardization within committees at the International Organization for Standardization and contributed to the development of the international guidance standard on social responsibility (ISO 26000). He currently serves at TC 176 and newly formed TG02 subcommittee on Brand Integrity and is a member of IUCN Commission for Environmental, Economic and Social Policy</p>

Appendix 1 Results – Issues in the development of International Joint Ventures

Issue	Western perspective	Sino perspective	Misalignment
Communication	<ul style="list-style-type: none"> * Competing for a control of board decision-making by using a Western law system to gain advantage; * Senior managers didn't trust or feel comfortable about their Chinese counterparts' direct communication * Perceived their Chinese counterparts to like "lecturing," "advising," and "instructing" 	<ul style="list-style-type: none"> * Responding to the pressure from the partner * Applying for Western direct communication approach but felt distrusted * Perceived their NZ counterparts to use "pushing," "convincing," "ignoring", and "arguing" as strategies to get their agreement 	<ul style="list-style-type: none"> * None of these actors admitted that their team could have done things better or that their own actions contributed in some way to the problems and frustration experienced in the collaboration. * Neither company was willing to engage with the other except when absolutely necessary – avoiding frustrations caused by the different views of the IJV
Negotiations	<ul style="list-style-type: none"> *Prepared a board paper in which they addressed the prospective discussion issues and led discussion topics *Pushed the Chinese directors who spoke little English into one-on-one talk situations to stop their argument *Used order contracts to defend self and refuse renegotiating the price 	<ul style="list-style-type: none"> * Believed in a fate and thus going with a flow * Focused on the result rather than the process, and thus paying less attention to the detailed legal procedures and document formulization 	<ul style="list-style-type: none"> * There were some ambiguities embedded in the process of finalizing the contract terms that may have caused conflicts and/or confusion in future collaboration.
Legal (approach to formulating of contracts)	<ul style="list-style-type: none"> * Used a shareholder's agreement with specific contractual terms to limit its Chinese partner's voting power and influence. 	<ul style="list-style-type: none"> *Focused much less on the contract, preferring to rely on building relationships, good impressions, and trust with their New Zealand counterparts 	<ul style="list-style-type: none"> *Respected for each other declined substantively
Culture (macro and/or meso)	<ul style="list-style-type: none"> * Perceived that the Chinese company's culture and values were not aligned with theirs (NZ firm perceived themselves as a flat hierarchy) 	<ul style="list-style-type: none"> * Senior managers treated themselves higher than the senior managers in the NZ company, so they did no talk to their counterparts except for board directors and the CEO; strongly hierarchical culture 	<ul style="list-style-type: none"> * NZ's key actors perceived that the misalignment was closely related to aspects of business strength and competitive abilities, strategic orientations, and boardroom manners, while China's key actors perceived that the misalignment was more related to aspects of organizational culture, social behavior, attitudes, trust, and relationships.
Strategizing	<ul style="list-style-type: none"> *When the board meeting was called off, the NZ company's CEO visited the Chinese CEO who then mediated the impasse and supported the Board to make a decision * Ignored their Chinese partner's strategy planning which was not consistent with theirs 	<ul style="list-style-type: none"> * Making speeches, giving their NZ counterparts advice and showing their strengths at the board meetings * Calling off the meeting to stop the Board making a decision 	<ul style="list-style-type: none"> Both partners didn't have consistent strategic orientations, as the Chinese company was focused on the development of infant formula, but the NZ one focused more on commercial milk powder.
Organizational Processes	<ul style="list-style-type: none"> *Perceived that the Chinese partner had poor understanding of Western ways of doing business *Got an agreement with the Chinese partner, using management to run the IJV, to be responsible for making all decisions 	<ul style="list-style-type: none"> *Perceived that they focused more on people, while their NZ counterparts' focus was mainly on achieving their business ambitions. 	<ul style="list-style-type: none"> Both partners had contrasting strategic actions once the IJV collaboration commenced at both the IJV board and organizational levels.