

The Chinese Volvo -  
Sino-Foreign Joint Ventures and  
Perceived Performance

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**FACULTY OF ARTS AND SCIENCES**

Linköping Studies in Arts and Science No. 472  
Linköping University  
Department of Management and Engineering  
Linköping 2009

Linköping Studies in Arts and Science • No. 472

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Distributed by:  
Department of Management and Engineering  
Linköping University  
SE-581 83 Linköping

Åsa Käfling  
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Upplaga 1:1  
ISBN 978-91-7393-715-3  
ISSN 0282-9800

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Institutionen för ekonomisk och industriell utveckling, 2008

Tryckeri: LiU-Tryck, Linköping

*This dissertation  
is dedicated to my parents,  
Ingrid and Kent Käfling*



## *Acknowledgements*

In this foreword, I would like to take the opportunity to thank supervisors and financiers, the joint venture executives, colleagues and friends as well as my family, for their support during the almost eight years of my doctoral studies.

### *Supervisors and financiers*

This dissertation would not have existed without the assistance of my supervisors and financiers. First and foremost, I want to thank my supervisor Professor Bo Hellgren for your courage in taking me on as a Ph D. Student in Business Administration, despite my confession during the interview that my heart beat more for Sinology than for business studies. I am very grateful for the encouragement you gave me to find my own paths, and the freedom this gave me. I would also like to thank my second supervisor, Professor Elisabeth Sundin for being a great source of inspiration. I really admire your wide knowledge and humble, eager-to-learn attitude. Professor Fredrik Tell came in as supervisor a bit later in the process than the others. However, that you became my supervisor is probably the single most important thing that has happened to me, from an academic point of view. Regardless of how late in the evenings I sent you manuscripts, you always found the time to read and comment on them. You have been a source of knowledge, inspiration, assistance and support from the very first day. I am very grateful to you for this. Professor S. Akmal Hyder helped through constructive comments during my dissertation seminar 2007. Your feed-back and suggestions for improvement inspired me greatly. Thank you for reading the dissertation manuscript so diligently. Finally, I want to thank Professor Feng Long for teaching me Chinese. You shared your love for the Chinese language and culture with me, as a lecturer, but even more as a friend. 谢谢您!

I would also like to acknowledge the contribution of my financiers, Jan Wallander's and Tom Hedelius' Foundation for Social Science Research and the division of Business Administration at the Faculty of Arts and Sciences, Linköping University.

### *Joint venture executives*

I am indebted to the joint venture executives of the Hua Wo case. First and foremost, I want to thank the former president of Volvo Trucks (VTC) Area Asia for giving me this fantastic opportunity to take part in the Hua Wo establishment. The year I spent working with you turned out to be the most exciting of my life. Furthermore, the president of Hua Wo has been crucial to this study. Dear friend, I am so grateful for the kindness you and your wife showed me during all my stays in Jinan. In addition, I want to thank Jan van Setten, former president of Volvo China Investment Company, for all the information about the negotiations process of the joint venture that you gave me. It is thanks to you that the background material has such a solid foundation. Finally, I acknowledge the importance of the support from the former president of VTC International Division, the kindness of the former president of VTC International Manufacturing and the sincerity of the former president of VTC Global Manufacturing. Your contributions have all been essential to the dissertation.

### *Colleagues and friends*

Both colleagues and friends have contributed in different ways to the dissertation. Firstly, Pamela Vang has worked tirelessly to correct the written text. Thank you for the assistance in making the text both readable and understandable.

The lunch group, Ph D. Cecilia Bjursell, Ph D. Helen Forslind and Ph Lic. Sarah Wikner, have lit my life during these doctoral studies. Cecilia, I look back with happiness upon the

time when we shared rooms at the University. Helen, I am proud of you and happy that you are the Godmother of my son Casimir. Sarah, I miss seeing you at the Rotary lunches. Ph D. Candidate Lena Andersson has also been a great friend at the University.

Finally, I want to thank my friends and neighbors Carolina Björklund and Veronica Ledin for all the combined chat- and tea times whenever I needed an excuse to get away from my laptop for a while.

#### *Family*

I have been blessed with a fantastic family that in different ways has helped me in writing this dissertation. First of all I want to thank my parents-in-law, Bo and Ingrid Claesson, for all the times that you have taken care of Casimir. Ingrid, you have been a rock for me during this last hectic time. Right now, writing this foreword, I hear you and Casimir laughing together in the kitchen, busy preparing vegetable soup for dinner.

My mother and father, Ingrid and Kent Käfling, have never stopped believing in me and in my work. You have always encouraged me and assisted me in every way. I hope this dissertation, which I have dedicated to you, will make you proud.

Last, but most important, I want to thank my husband Christian Käfling. No words can express how much you mean to me and how important you have been for the dissertation. I know that I would never have succeeded in writing the dissertation without you. You have been my most important supervisor, financier, friend, mentor, and computer support – all in one. Together with our son Casimir, you make my life complete.

*Stockholm, 9 December 2008*

A handwritten signature in black ink, reading 'Åsa Käfling' in a cursive script.

*Åsa Käfling*

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# PART I.INTRODUCTION TO THE CHINESE

VOLVO



## 1 Introduction

***Prelude: Illustration – the Hua Wo telephone conference<sup>1</sup>.  
Beijing, Jinan and Gothenburg 2 of June 2004.***

***Volvo Trucks' Area Asia Office, Beijing 16. 30 Chinese time***

*In the leafy embassy district in Beijing known as Sanlitun, there is an office building constructed mainly of glass and steel. Like the other buildings in this area the house is low and surrounded by trees. However, only a few blocks away, the third ring road is located. Here the skyscrapers and luxury hotels are lined up.*

*When enter the office it is evident where you are: the company name VOLVO shines from an enormous sign in the hallway. In addition, miniatures of Volvo Trucks' products such as pumps, dumpers and mixer trucks are stacked in shelves along with promotion materials like silk ties, scarves and cigarette lighters adorned with the company brand name.*

*When you have passed through the entry hall and look towards the office landscape made up of clear blue cubicles, you are only a few steps away from the heart of the building; the room of the Asia president of Volvo Trucks. This room is large and spaciouly furnished, with light wooden panels and chairs and sofas in black leather at one end. At the other end there is a writing desk behind which a large map of China is fixed to the wall. In between, there is an oval table with six leather arm chairs, where at the moment a few people sit preparing to attend a telephone conference.*

*The place at the head, the place of the Asia president Jacob Wall<sup>2</sup>, is empty. Jacob Wall, in his forties and tall with curly blond hair and blue eyes, has become almost the symbol of a Swedish industry leader for the Chinese employees. However, they are not fooled by the blue eyes and charismatic leadership, as they are aware of their president's reputation as tough and his predilection for "fast actions and bold decisions". When the Asia president takes his place, the others at the table fall silent and dial the telephone number connecting the Beijing office to the telephone conference.*

***Hua Wo Factory, Jinan 16. 30 Chinese time***

*At the same time, two middle aged men sit at a similar table, inside an industrial plant in the desert-like outskirts of the multimillion city Jinan in the Shandong*

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<sup>1</sup> Freely written from transcribed recordings, and documentation of the Hua Wo Joint Venture Executive Committee Meeting, 2 June 2004

<sup>2</sup> Fictive name

province. In this conference room Jon Andersson<sup>3</sup>, the president of the joint venture and truck factory Hua Wo<sup>4</sup>, sits at the head of the table talking to the financial controller of the company. The Hua Wo president, who has worked a large part of his life establishing Volvo factories around the globe, likes to use metaphors from the world of sport to describe his mission. He views the employees as important members of the team that he is coaching. As this is his last assignment before retirement, he puts his heart and soul into beating the high expectations for operations of the factory. He is looking forward to discussing the latest development of the Hua Wo operations with the other members of the conference. Thinking proudly of his factory and the crews' achievements, the Hua Wo president dials the telephone number that will connect the Hua Wo joint venture to the telephone conference.

### **Volvo Trucks' Head Quarters, Gothenburg 10.30 Swedish time**

In a conference room in Volvo Trucks' brown brick head quarters, two middle aged men are preparing to participate in the telephone conference. The atmosphere is hearty, almost jolly, and it is clear that the men in the room know each other well. From their informal way of talking and casual clothing, it is hard to tell that two of the men, figuratively speaking, have divided the responsibility for the multibillion dollar company Volvo Trucks between them. One of them is responsible for the sales of Volvo trucks in the international markets while the other is head of global manufacturing.

Had Hua Wo been nothing but an assembly factory, neither of them would have been present in this meeting. However, the Hua Wo factory is something more than that. The management of Volvo Trucks has worked hard in order to get the joint venture established, as they had been negotiating the joint venture for more than a decade. During this time, the joint venture project underwent major changes. The intended parent, the division of control between the parents, the goals with the factory changed. Originally, the joint venture was meant to be a small factory, and then it became a large conglomerate. When the joint venture was finally approved the project had been scaled down again. The result of this is that the conception of the joint venture differs also among the executives in the meeting: While the head of manufacturing views the joint venture as a future base for sourcing components for global production, the head of sales sees the company as a part of an internationalization strategy focusing on emerging markets.

Consequently both men listen attentively to hear the "beep" that indicates that also the Volvo Trucks' headquarters in Gothenburg is connected to the telephone conference.

---

<sup>3</sup> Fictive name

<sup>4</sup> Hua Wo means "the Chinese Volvo" in Mandarin

***Entering the telephone conference***

*When the conference starts, the discussions alternate between English and Swedish, languages that all but one of the participants understand. The topic of the day is the Hua Wo performance:*

*Trucks have been assembled at the Jinan factory for a few months now. Jon Andersson, the president of Hua Wo, informs that routines were recently established and that the factory has succeeded in its operations. Despite the fact that the factory has been up and running for a very short period of time, the number of errors on the trucks produced is low. Actually, the quality of the trucks assembled at the joint venture plant in Jinan is even higher than of these produced in the large factory plant in Tuve, Gothenburg. When the Hua Wo president sums up the situation, he is more than satisfied with the performance of the company; everything is working out well, very well, and the factory has exceeded the highly set goals. The only problem, he adds jokingly, is that the only customer has neither collected the manufactured trucks, nor paid for them. This comment from the Hua Wo president is received by a stream of interjections from the other participants in the meeting. The reference to “the only customer” is really a circumlocution for “Volvo Trucks in Asia”, casually referred to in the meeting as “the Commercial side” or “the Beijing office”.*

*When Jacob Wall, the head of sales in Asia and China, is asked to explain the situation it is a different scenario that emerges. The Asia president is not satisfied at all with the outcome of the joint venture in Jinan. First of all, a new automotive policy was issued about a month ago which makes it almost impossible to sell the trucks assembled in Jinan, since the policy only allows the trucks to carry about half of the weight they are designed to. In addition, even before the new policy was issued, the trucks were too expensive to be competitive; a consequence of the inability of the Volvo sourcing organizations to source components in China. The goal of the factory, to establish a platform for expansion in China, has thus been unsuccessful, the Asia president concludes. This statement gives rise to an agitated discussion about the performance of the Hua Wo joint venture. In this discussion the conflicts and cooperation difficulties between the factory management in Jinan and the sales organization in Beijing are mentioned several times. In addition, the need for a co-ordination of the activities of the “commercial side” and the “industrial side” is highlighted. The factory management in Jinan complains about the lack of information from, and communication with the Beijing office. The Gothenburg managers emphasize the great importance of the activities of the sourcing organizations on the outcome of the China strategy. The impact of the new legislation is also discussed.*

*A few hours later, when the meeting has come to an end, it is time for lunch in Gothenburg. At the same time the darkness has fallen over the trees in the embassy district in Beijing and the sandy mountains of Jinan.*

## **1.1 International Joint Ventures and Performance**

As the illustration of the Hua Wo joint venture teleconference is an example of, the interest shown by business and industry in international joint ventures (IJV) has increased, especially with regards to developing countries. This holds true for China, which in 2003 became the largest recipient of foreign direct investment (FDI) in the world, and where joint ventures are a common organizational form. However, in many cases the outcomes of the joint venture establishments have proved to be unsatisfactory.

Within the joint venture field of research, it is argued that international joint ventures are difficult to manage and produce unsatisfactory results (Hennart & Zheng, 2002) especially in China (Child & Yan, 2003).

Due to this conflict that arises between wanting to establish joint ventures and the uncertainties around the results from the investment, there is need for an understanding of performance of international joint ventures. This dissertation presents a study of performance in joint ventures between foreign and Chinese companies in China (so called *Sino-foreign Joint Ventures*). The dissertation is based on a longitudinal case study of the Hua Wo joint venture, a Sino-foreign joint venture in Jinan, China.

## **1.2 International Joint Ventures**

During the past decade the importance of *Strategic Alliances* (SA) has increased significantly (Contractor & Lorange, 2002). There exist several slightly different definitions of strategic alliances. While the broadest definition classifies all cooperative forms, from imaginary organizations to mergers, as strategic alliances, the narrowest definitions include only joint ventures (Bengtsson et al., 1998). One might say that “joint ventures are strategic alliances, but all strategic alliances are not necessarily joint ventures”.

For joint ventures, there are also several slightly different definitions but usually, a joint venture is characterized by a separate legal entity (which is called the *Joint Venture Organization*) owned by two or more companies (which are called *Partners* or *Parent Organizations*). Joint ventures can be divided into *Equity Joint Ventures*, where a separate entity is materialized, and *Contractual Joint Ventures* (also called non-equity joint ventures) where no legal person is formed (Child, 1994). Usually, and this dissertation follows this tradition, the terms *joint ventures* and *equity joint ventures* are used synonymously<sup>5</sup>. *International Joint Ventures* (IJV) are joint ventures where at least one parent organization has its head-quarters

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<sup>5</sup> Buckley and Glaister (2002), for example, define joint ventures as “alliances between companies cemented by equity ownership arrangements”. (p49)



outside the joint venture's country of origin and/or the joint venture has a large part of its operations in more than one country (Geringer & Herbert, 1989).

International joint ventures are used both in developed and developing countries. However, since joint ventures have traditionally been required for foreign establishment in China and as since 1992 China has been the largest recipient of FDI in the developing world (Child & Yan, 2003), *Sino-Foreign Joint Ventures* are of great interest also for researchers.

### 1.3 Sino-Foreign Joint Ventures

The great interest in establishment in China is due to the vast changes that the Chinese economy has undergone during the last two decades. These changes started with the introduction of the reform program, the so called *Open Door Policy*, in 1978.

When the Open Door Policy was adopted, foreign companies were allowed to invest in China. The new law "*The Law of the People's Republic of China on Joint Ventures using Chinese and Foreign Investment*" which was approved 8th July 1979, stated that China wanted to expand its "*international economic cooperation and technological exchange*" and therefore welcomed foreign companies to "*incorporate themselves, within the territory of the People's Republic of China, into Equity Joint Ventures with Chinese companies*" (MOFTEC 1979; quotation from Article 1). The implications of the policy for the Chinese economy were substantial. From 1978 to 1998 China's total import and export grew more than ten times (CCCP, 1999)<sup>6</sup> leading to an economic growth unequalled in modern times (Wu 2000).

In order to invest in China foreign investors could choose from four forms of investment: representative offices, Sino-Foreign Joint Ventures (Equity Joint Ventures and Contractual Joint Ventures), Wholly Foreign Owned Enterprises (WFOE) and Foreign-Invested Joint Stock Limited Companies. However, between 1980 and 2000 equity joint ventures and wholly foreign owned enterprises accounted for more than 80% of the capital flows into China (Deng, 2002). In industries which were classified as *strategic*, an equity joint venture was the only form of foreign investment allowed<sup>7</sup>.

<sup>6</sup> Even though the accuracy of the figures obtained from the Chinese Bureau of Statistics is sometimes questioned, the relations between the quantities of trade are probably true. For a discussion about statistics in China see e. g. Lee (1999)

<sup>7</sup> In the early age of the economic reforms in China joint ventures were required for the majority of foreign investments. During the 90s the Chinese government started to accept and promote wholly foreign owned enterprises. However, for foreign companies operating in strategic industries, such as Volvo Trucks which operated in the automotive industry, equity joint ventures was still required for establishment.

## 1.4 Joint Venture Performance Evaluation

By the late 1990s, many foreign investors were already dissatisfied with the outcome of their joint venture establishments in general, and with their Sino-foreign joint ventures in particular (Deng, 2002; Pan et al., 1995; Si & Bruton, 1999). The statement that “the majority of joint ventures fail” was often heard<sup>8</sup>. The joint venture form, it was argued, was the *cause* of the problems.

However, the claim that the majority of joint ventures fail is problematic in several ways:

- Firstly, measuring and evaluating joint venture performance has been characterized by a situation where no consensus about how performance should be defined has been reached (Dussauge & Garrette, 1995), nor which actor should define it (Child, 2003).

As will be discussed later in the dissertation, joint venture performance studies mostly investigate *either* the stability (and/or duration of the alliance) and/or the financial situation of the joint venture (Dussauge & Garrette, 1995) with so called *objective measures*, or the opinions of the managers involved about the alliance, with so called *subjective measures*. Earlier studies often used these objective measures, but they have become unusual (Child, 2003) because of the assessment difficulties (a result of transfer prices and non-transparent accounting). Another reason is that the objective measures only cover a limited range of the stakeholders’ goals. Most recent studies assess joint venture performance from the perspective of perceived performance. In this dissertation perceived performance is defined as strategic goal achievement and over all satisfaction (c.f. Lee & Beamish, 1995; Yan & Gray, 1994).

- There are, however, differences in which constructs are used in the assessment of perceived performance, as well as in which stakeholders are included in the sample. This leads to ambiguity and comparison difficulties even for subjective measures.
- Another problem is that there are few studies where performance is the main research issue. Most contributions investigating performance do not focus on studying the performance construct *per se*, but study other research issues and their influence on performance – usually one issue at a time. Few studies have a broad and/or integrative approach on performance.

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<sup>8</sup> For a summary of studies which present dissolution rates from 30% to 70% see Hennart (2002).

- Finally, the studies that are usually referred to when establishing the “fact” of the high level of joint venture failures are often old and questions can be raised regarding the methods used<sup>9</sup>.

## **1.5 Performance – Need for an Integrative Framework**

But how is then perceived performance to be understood? In order to achieve a comprehensive understanding of joint ventures and performance, a theoretical framework which *integrates* key concepts of performance has been suggested (Parkhe, 1993). Special attention should be given to the *motives* for establishing a joint venture, the *partner selection* process and *control* (Buckley & Glaister, 2002; Parkhe, 1993). Even though many articles have been published within each of these fields, the literature is still fragmented. Further and integrated studies of JV motives, partner selection and control related to performance are needed, in order to reach advances in JV theory development (Buckley & Glaister, 2002).

### **Motives for IJV formation**

As will be further discussed in section “4.2 Motives in Joint Ventures” of the dissertation, the issue of motives behind establishment, why companies choose to get involve in joint ventures instead of other forms of inter organizational cooperation has been addressed by many authors (e.g. Hagedoorn & Sadowski, 1999; e.g. Hennart & Reddy, 1997; Hennart & Reddy, 2000). As have the main differences of motives behind joint ventures between companies from the developed and the developing world (Boateng & Glaister, 2003).

When it comes to motives, goals and objectives the special challenges of Sino-foreign joint ventures have been described. Conflicts as a result of goal incongruence are so widely acknowledged that the Chinese proverb “Same bed different dreams” is a commonly used expression when discussing the difficulties involved in the management of joint ventures in China (Lampton; Walsh and Wang 1999).

However, in the telephone conference about the performance of the Hua Wo joint venture, nothing was said about the motives behind the JV establishment. Nor did the executives discuss the differences between the goals of the JV partner organizations. Instead the differences of goals between the Volvo internal stakeholders were underlined. How should differences in goals within an organization be understood, and what influence have these differences on

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<sup>9</sup> Several of the most cited sources (with the highest dissolution rates) are reports from consultancy agencies, something that is problematic since consultants have a self-interest when it comes to depict joint ventures as hard to manage.

perceived performance? Turning to the JV literature gives little guidance, other than that a few JV authors have casually observed that different goals may exist within a JV organization (Child & Yan, 2003; Luo & Park, 2004; Shenkar & Zeira, 1992).

In addition, for the Hua Wo joint venture *goals seem to have changed over time*. How does this change affect perceived performance? Searching the JV literature, few answers are found, as most studies do not even consider the possibility that motives and goals change over time (Ariño, 2003; Child & Yan, 2003).

### **Partner selection**

The issue of *partner selection* has also received much attention from joint venture scholars, which will be shown in section “4.3 *Partner Selection in Joint Ventures*” of the dissertation. Partner selection has been shown to be influential for strategic goal achievement (Luo & Park, 2004). Partner relations have received a special focus of the JV literature, as conflicts between partner organizations have said to be important reasons for the failure of JVs.

Much emphasis has thus been put on finding and defining the most important *criteria* for partner selection and a successful partner relationship, and it is generally anticipated that the involved partner organizations should fit each other *strategically* (Geringer, 1988, 1991), *organizationally* and *financially* (Luo, 1997). Financial fit is especially important for Sino-foreign joint ventures (Luo, 1997).

Nevertheless, analyzing the discussion of the Hua Wo teleconference, partner relations was not the issue of the day. Instead the relationships with other parties that had an influence on performance were discussed. The executives in the meeting clearly held *internal stakeholders* (such as the Volvo sourcing organization 3P) and *political intervention* (through new automotive legislation) responsible for the difficulties the newly established joint venture faced. How can the influence exercised by other stakeholders than the joint venture partners be understood in relation to performance? And what does it mean that stakeholder constellations change over time?

Looking for answers in the JV literature provides little insight as the JV literature almost exclusively focuses on the relationship between the joint venture partners. The importance of internal stakeholders has not been discussed, neither has the influence of institutional factors on JV perceived performance.

### **Control**

As will be discussed in section “4.4 *Control in Joint Ventures*” of the dissertation, the issue of control has received much attention from the JV field. It has even

been said that “*studies of IJV performance have been obsessed with the relationship of performance with control*” (Buckley and Glaister 2002; p64). Following this, a large number of studies of control in joint ventures have been published. Often control is seen as a three dimensional phenomenon consisting of control extent, control focus and control mechanisms.

Studies of *control as a mechanism* focus on how control is exercised. Examples of control mechanisms are right to veto a decision, representation in management, special agreements when it comes to technology and/or management (Geringer & Herbert, 1989).

The *extent of control* derives from the extent to which the partners implement control. Whether the joint venture is a dominant, shared, independent or split joint venture is decided by the parent’s extent of control.

The *control focus* defines the area in which control is exercised in the joint venture operations (Geringer & Herbert, 1989). Control can be exercised over resources (Hyder, 1988), activities, output and relationships (Kamminga & Van der Meer-Kooistra, 2007).

In the teleconference, control issues were also highlighted. However, once again it is possible to detect a difference between the literature and the illustration from the teleconference. In the teleconference, control was discussed in terms of *co-ordination* of the different Volvo organizations. Conflicts of control were shown mostly through lack of information and co-ordination. Furthermore, the discussion in the teleconference implies that control issues were viewed differently by the different organizations represented at the meeting. How can the differences in opinion about control issues among the executives be understood? And how can the change of control between the joint venture stakeholders over time affect perceived performance?

Even though many studies have been published about joint venture control, few authors have studied how different control mechanisms are used in everyday work. In addition different JV partners are assumed to share the same opinion of control extent (e.g. Killing, 1983). Finally, there have been almost no studies into the focus of control within the joint venture field. (c.f. Kamminga & Van der Meer-Kooistra, 2006; Kamminga & Van der Meer-Kooistra, 2007).

## **1.6 Purpose and Research Questions**

This dissertation provides an analysis of perceived performance in a Sino-foreign joint venture. The analysis applies and develops concepts regarding joint venture perceived performance from the JV literature. Using an in-depth study of the Hua

Wo joint venture between Volvo Trucks and China National Heavy Duty Truck Group Co. Ltd. this dissertation addresses research gaps of the JV literature, using an integrative framework for analyzing perceived performance.

The purpose of the dissertation is to contribute to the understanding of Sino-foreign joint venture perceived performances by suggesting an elaborated model, which captures situated and dynamic features.

The research questions, which will serve as guide lines when developing the elaborated model of perceived performance, are:

- What influence perceived performance?
- Which stakeholders influence perceived performance?
- How is perceived performance developed over time?

## **1.7 Delimitations**

This purpose of this study is to analyze perceived performance, which is defined as the joint venture executives' assessment of strategic goal achievement and overall satisfaction. As a result, the dissertation is written from a managerial perspective. Furthermore, as the dissertation is based on a case study of the Hua Wo joint venture in China, the focus of the dissertation is primarily on perceived performance of Sino-foreign joint ventures. That the Hua Wo joint venture is a part of the automotive industry, which is highly regulated in China, should further be taken into consideration. Nevertheless, the findings from the analysis in the dissertation are interesting also for international joint ventures located in other developing countries.

## **1.8 Outline of Dissertation**

This dissertation is divided into six parts; introduction, theoretical framework, case study, analysis, conclusions and references.

### *Introduction to the Chinese Volvo*

The first part of the dissertation, the introduction part, consists of two chapters which present the background to the dissertation study.

In the “*Introduction chapter*” the subject of international joint ventures is briefly described. In addition the aim of the dissertation is outlined and its overall purpose is formulated.

In the “*Methods and Methodology chapter*” the need for further studies into joint ventures is discussed. Furthermore, the research process is described and methodological considerations are accounted for.

### *JV Performance – a Literature Review*

The second part of the dissertation, the literature review, is comprised of two chapters which describe joint venture theory and literature.

The chapter “*Overview of the JV Performance Literature*” outlines the existing literature in the joint venture performance field. The intent is to create an understanding for JV performance as such and also to highlight the difficulties which arise due to ambiguous measurements, lack of definitions and methodological pitfalls in the research field.

The chapter “*Key Concepts for JV Performance*” describes the key concepts of joint venture performance in the literature. These concepts, together with an integrated model of performance, will be used later in the dissertation to analyze the empirical case of the joint venture known as Hua Wo.

### *Hua Wo – The Chinese Volvo Case Study*

The case study part is divided into three chapters which all describe the establishment of the joint venture. This joint venture, *Jinan Hua Wo Truck Corporation* (abbreviated Hua Wo), is an Sino-foreign joint venture located in Jinan in the Shandong province.

The chapter “*History of Volvo Trucks’ China Entry*” covers the period from 1993 until 2003. At that time the Hua Wo joint venture had not yet been approved and the future owners of the joint venture, Volvo Group through Volvo Trucks and China National Heavy Duty Truck Group, were planning for and negotiating the forming of a joint venture in China.

The chapter “*Establishing the Hua Wo Joint Venture*” continues the history when the joint venture is finally approved in 2003. This chapter consists of a detailed account of the operations of the Hua Wo joint venture from mid 2003 until production was terminated in late 2004. This chapter is written from the perspective of the executives involved in Hua Wo and describes actual and daily activities and considerations in managing the joint venture.

Finally, the chapter “*Categorizing Activities*” is an effort at understanding which stakeholders are involved and influential in the different aspects of the Hua Wo joint venture. In addition activities are categorized according to time. The

importance of stakeholders and time are further discussed in the “Elaboration of Perceived Performance” chapter.

The chapter “Categorizing Activities” also provides a discussion about the focus of discussion of the different activities. This discussion will be the starting point for the “Re-Conceptualization” chapter.

### *Perceived Performance – The Elaborated Model*

This part consists of three different chapters that analyze the empirical findings and suggest possible conceptualizations of Sino-foreign joint venture performance.

The first chapter of the analysis, “*Re-Conceptualization*”, develops the integrative model from the theoretical framework. This is done through a comparison between literature and case. The focus of discussion of the case activities, described in the “Categorizing Activities” chapter, serves as the starting point for the analysis.

The chapter “*Elaboration of Perceived Performance*” applies the concepts of the elaborated model to the case. Each concept is discussed and its relevance for performance discussed. Further, the numbers of stakeholder involved, as well as duration, highlighted in the “Categorizing Activities” chapter is analyzed. The findings of the analysis are contrasted with the JV performance literature. The chapter builds on and extends earlier joint venture research by elaborating four key concepts needed for an integrative understanding of performance.

The final chapter in this part “*The Hua Wo Case and Assumptions in JV Literature*” discusses the discrepancies between the earlier JV literature and the findings from the case. In this chapter, a suggestion as to why these discrepancies exist is brought forward, proposing that these discrepancies can be explained by the underlying assumptions of system openness and rationality of literature and case.

### *Conclusions and Implications*

The conclusions part of the dissertation comprises only one chapter which is called “*Concluding Discussion about JV Performance*”. In this chapter, the findings from the dissertation are discussed. In addition, the contributions of the dissertation are listed. Proposals for future research are also discussed.

### *References and Appendices*

The last part of the dissertation contains a reference chapter and eight appendices which provide reference- and support material for the dissertation.



The “*References*” is a chapter which is divided into two sections. The first section is a list of all the academic references. The other section lists the case specific, and in most case company internal, documentation.

The appendices can be seen as a description of the background material of the dissertation.

“*Appendix I*” lists the content of the most important reference articles of the dissertation.

The material in the dissertation collected through participating observation is described in “*Appendices II-V*”. Here the different field studies which are the base of the case study material are described. So are also the different meetings and project reports the case study is based on. Finally the project reports are listed.

“*Appendices VI and VII*” describe the interview study. Firstly the respondents are listed and then an example of an interview guide is attached.

“*Appendix VIII*” accounts for the definitions of key terms in the dissertation.

The final “*Appendix IX*” is a dissertation dictionary which explains the case specific terminology.



## 2 Methods and Methodology

*“When we bleed, we bleed blue”* (Quotation from Volvo VTC Executive November 2003)

### 2.1 Need for Re-orientation

As was mentioned in the previous chapter there seems to be a mismatch between the JV practice and literature, as the literature fails to cover important issues discussed by the executives in the literature. There are two main challenges identified in this dissertation. Firstly, the performance literature needs conceptual development. Secondly, a methodological re-orientation is sought for. In line with this Parkhe (1993)<sup>10</sup> concluded that the IJV field lacked a comprehensive theoretical framework. He was surprised by:

*“the extent to which current empirical IJV research which boasts a large number of methodologically impeccable studies fails to address concepts that are theoretically deemed **central** to the IJV relationship”.*  
(Parkhe 1993; p227 emphasis in original)

In addition important methodological issues still need to be attended to, as there is a bias within the field toward conducting studies *“that are unlikely to yield needed advancements in theory”*. (Parkhe 1993; p228)

#### 2.1.1 Conceptual development is needed

In order to achieve conceptual development in the IJV field there are two main requirements that need to be addressed. Firstly the important key concepts of IJV research need to receive more attention of a systematic nature. Secondly these key concepts should be integrated in order to enhance theory development. (Buckley & Glaister, 2002)

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<sup>10</sup> A decade later this demand had still not been addressed according to Buckley and Glaister (2002).

*“JVs are complex, mixed-motive (competitive + cooperative) relationships. Research on JVs has tended to gravitate toward four major topics: motives for JV formation, partner selection/characteristics, control/conflict, and JV stability/performance. While each topic is individually important, there has been little effort to reintegrate the insights into a higher-order theory of JVs.”* (Parkhe 1996; p451)

To study the key concepts in a way that identifies their interrelatedness is essential since: *“Bilateral relationships between variables (control and performance, for instance) are embedded in a nexus of causality which need careful investigation.”* (Buckley and Glaister 2002; p65). The importance of integrating the key concepts of IJV research will be further discussed in *“4.1 An Integrative Approach to JV Performance”*.

### **2.1.2 Methodological development is needed**

To achieve conceptual development, a re-orientation of methodological focus is needed, as conceptual and methodological issues are closely related.

*“Relatively few theorists utilize ‘qualitative’ research (such as case studies or participant observation) that may permit deeper understanding and sharper delineation of concepts domains, and fewer still resort to ‘joint’ research (combining qualitative and quantitative).”* (Parkhe 1993; p230)

Looking at earlier IJV research, it is clear that there are few qualitative studies in general, and even fewer longitudinal case studies.

Generally, a methodological re-orientation toward more *qualitative research methods* is expressed within the IJV research field. Yan and Zheng (1999) observe: *“Simply relying on second-hand data and sophisticated statistical packages, as many precious studies did, is no longer adequate. In order to build rigorous IJV theories, more inductive, grounded theory building efforts are also warranted.”* (Yan and Zeng 1999; p409)

In addition, *longitudinal case studies* are very few within IJV research. The need for longitudinal case studies was identified some fifteen years ago by Yan and Zheng who concluded that *“longitudinal studies are underrepresented in research to date and, as a result, little is known how about how joint ventures evolve over time.”* (Yan and Gray 1994; p1479) However, since then few longitudinal case study articles have been published, and a methodological shift is still needed in order to overcome the methodological shortcomings. As Child and Yan (2003) point out: *“... IJV performance deserves closer examination in future research, preferably through longitudinal investigation”* (Child and Yan 2003; p310).

Finally, research should closely relate to the actual JV practitioners. Firstly, this closeness vouches for the research issues being important for the joint venture practitioners. Another, more practical reason, is that access problems can be overcome, since the scarceness of studies of certain key concepts can at least partly be explained by difficulties of getting access. This holds true for company internal materials which are often regarded as highly confidential by joint venture managers (Groot & Merchant, 2000). It is known to be especially difficult to get permission to study joint venture contracts, something that has hampered the understanding of joint venture performance. As is shown in Groot and Merchant (2000): *“The IJV agreement, in particular, seems to contain some elements that make it highly confidential. We were unable to get a copy of the agreement from any of the IJVs we studied, despite the central importance of the agreement to our research topic and the excellent cooperation we received from all parties regarding all our other requests.”* (Groot and Merchant 2000; p606)

To summarize: The conceptual gaps in IJV performance theory and the methodological challenges are intertwined, as the reason for the shortcomings of the IJV field can be put down to the research methods used.

In order to address the central concepts of IJV performance, research needs to be more comprehensive, both from a conceptual and methodological perspective. To achieve this comprehension, research should be based to a larger extent on longitudinal, real time, qualitative studies (Geringer, 1988; Merchant & Schende, 2000; Parkhe, 1993; Yan & Gray, 1994) and aim to consolidate and integrate earlier research (Buckley & Glaister, 2002; Parkhe, 1993).

## **2.2 Dissertation Study Design**

This dissertation is based on a longitudinal, real time case study of the Hua Wo joint venture. Further, the ambition has been to integrate and consolidate earlier research, as well as to investigate issues of importance for the JV stakeholders.

However, in order for qualitative research to be valuable, certain research issues need to be addressed, since qualitative research is characterized by a demand for the researcher to clearly account for, and reflect upon, her research process. Further, it is important to describe the methods and strategies which were used in order to compile the research material.

In this methods chapter, I aim to reflect upon the methodological choices I have made, and their impact on the research methods I have used.

## Interpretation and reflection

Qualitative methodology emphasizes the elements of *interpretation* and *reflection* when conducting research. The importance of *interpretation* is based on the acknowledgement that all references to the empirical material are results of interpretation. In the interpretation process it is important to be aware of the influence of the researcher's pre-understanding, the importance of language, and the a priori theoretical standpoints when conducting research. (Alvesson & Sköldbberg, 1994)

When *reflecting* the researcher should scrutinize: herself as she is the tool for research, the language since it is the medium of research, intellectual and cultural traditions since they create the borders of research, and the society as well as the research community as the context from which the research must be understood. According to Alvesson and Sköldbberg (1994) it is a systematical reflection on several different levels that gives qualitative research its value. When conducting research in, and of, society four issues should be included, namely:

- The research process and the techniques used to compile and interact with the material. In addition to this, the gathering of the empirical material as well as its cultivation should be thoroughly discussed. In this dissertation this is done through a review of the techniques used to compile the empirical material, through participating observation, interviews and studies of written material, which is found in section “2.3 *Compiling the Empirical Material*”.
- The importance of interpretation. Within the social sciences, research is conducted by a person that interprets other peoples' interpretations. In this dissertation the importance of interpretation is discussed in the methodological underpinnings and the description of how the empirical material has been analyzed is found in section “2.4 *The Research Journey*”.
- The political and ideological aspects of research, since research is a phenomenon that takes place in an ideological and political context. Research either reproduces or questions existing conditions. In this study these aspects are underlined in the discussion in two ways, firstly when discussing the conflicting interests when conducting interactive research and secondly when discussing the political aspects of interaction in organizations. This discussion is found in section “2.5 *Methodological Underpinnings*”
- How the result of the research, the text, can be interpreted and stand alone from the author. This is done in the discussion about the contributions of the dissertation to the different audiences, which is found in section “2.6 *Alternative Readings*”.

In addition to the four research issues taken up by Alvesson and Sköldbberg (1994) I will add a fifth issue, namely how the particular setting of the case study (to be treated as an employee by one of the stakeholder companies) has influenced the dissertation. This will be described in “2.7 Bleeding Blue”.

### 2.3 Compiling the Empirical Material

In line with Alvesson and Sköldbberg (1994) I will start by accounting for the gathering of the empirical material.

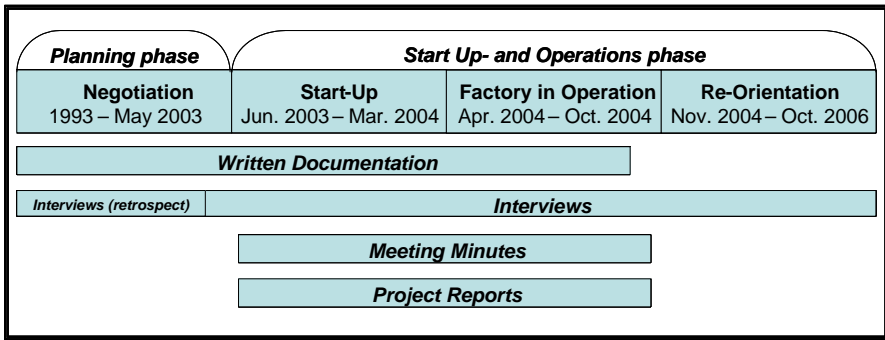


Figure 1: Time line and scope of empirical material

This dissertation is based on a longitudinal real time participating observation study of a joint venture in China. The joint venture is called the Jinan Hua Wo Truck Corporation (abbreviated Hua Wo).

The negotiations to establish the joint venture started 1993 between the parent organizations, the Swedish multinational company *Volvo Group* (through its subsidiary *Volvo Trucks*) and the Chinese conglomerate *China National Heavy Duty Truck Group*. The company was approved by Chinese authorities in 2003, and the factory was inaugurated in March 2004. In 2006, the operations of the joint venture were halted indefinitely.

The empirical material is based on documented real time participating observation of the joint venture and the joint venture stakeholders, conducted between September 2003 and September 2004. All together the empirical material covers the period from 1992 to 2006 and includes negotiation, planning, start-up, operations, re-orientation and termination of the joint venture establishment.

In order to simplify the analysis of the establishment of the Hua Wo joint venture the case has been divided into two phases:

*The Planning Phase*, which lasted from 1993 to May 2003, when the joint venture was finally approved. During this period the planning of the JV underwent several major changes, which were mostly the result of political intervention. In the case study, this is described in the historical exposé, which is found in chapter “5 *History of Volvo Trucks’ China Entry*”.

*The Start up- and Operations Phase*, which lasted from June 2003 until production in the factory came to a halt. When the management of the JV came into operation and several new stakeholders entered the arena, the goal complexity increased as the motives of the joint venture partners were broken down in goals. The start-up and operations are described in chapter “6 *Establishing the Hua Wo Joint Venture*”.

### **2.3.1 Perspective**

In the *Case study* material there is a preponderance of material from the Volvo side of the joint venture. It can further be argued that the case study is written from the perspective of the foreign partner. There are several reasons for this:

Firstly, the focus of the case study is the performance of the Hua Wo joint venture and the domestic partner, CNHTC, did not have the formal means of influencing the performance.

Secondly, the domestic partner did not participate in the management meetings of the JV (namely the JV executive committee meetings) which form the basis of the case study.

Thirdly, as I spent more time at Volvo Trucks and Hua Wo than at CNHTC it was easier to get access to Volvo related material and respondents. In addition, the interviews and meetings with CNHTC stakeholders were mostly informal which led to difficulties to be able to quote what was said exactly. When I use material retrieved from such an occasion I have chosen to write from my own perspective, what I heard and saw (rather than impute words on the respondent). Nevertheless, I did conduct several formal interviews with CNHTC appointed managers at the joint venture.

However, in the *Analysis* part of the dissertation, the perspective is broadened. In this part, the foreign partner Volvo is not in focus in the same way as in the case study. The emphasis is on analyzing all the stakeholder relationships of the Hua Wo joint venture.



### 2.3.2 Collection of material

The empirical material of the dissertation consists of four pillars: written documentation, transcribed interviews, meeting minutes and project reports.

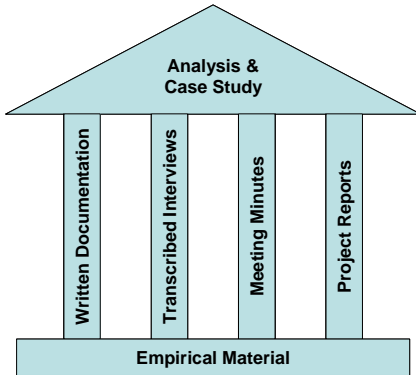


Figure 2: Empirical material of dissertation

#### Written documentation

The written material consists of historical documentation of Volvo's early efforts to establish a truck joint venture in China (such as letters, contract proposals, authority decisions and internal meeting notes), current Volvo internal documents (such as organization charts, strategic plans, and financial calculations) and joint venture specific documentation (such as contracts, board meeting decisions and production plans). The written material covers the joint venture planning, start-up and operations phase (1992 to 2004). Altogether, this information is compiled in ten binders of written documentation<sup>11</sup>.

In the dissertation, the written documentation is accounted for in a separate reference list. This reference list is found after the academic references in the dissertation.

#### Transcribed interviews

The second pillar of the empirical material is the transcribed interviews with the joint venture stakeholders. The interview study was concentrated to the second half of the participating observation at Volvo Trucks<sup>12</sup>. The material comprises 84

<sup>11</sup> The historical documents were given to me by Jan van Setten, who was responsible for the first rounds of negotiations with CNHTC, when he left his office in 2004.

<sup>12</sup> To conduct the interviews after having spent some time in the Volvo organization made it possible for me to use the input from the meetings and projects in the interviews.

interviews with joint venture stakeholder executives (conducted between 2003 and 2006) whereof a majority have been recoded and transcribed *in extenso*, covering the planning, start-up, operations and re-orientation of the Hua Wo establishment.

During the longitudinal real time study I conducted 77 interviews: 58 with Volvo stakeholders, 12 with Hua Wo managers<sup>13</sup> and seven were with stakeholders from other organizations. After the real time study was finished, six further interviews were conducted in 2006 with joint venture executives.

The interviews were held in three different languages. I interviewed the native Swedes in Swedish (which is also my own mother tongue), the Chinese speaking in Chinese and/or English and the rest of the respondents in English.<sup>14</sup>

For a detailed list of the names of the respondents and the date for the interviews, see “*Appendix VI– Interviews*”. For an example of an interview guide see “*Appendix VII – Example of Interview Guide*”.

### **Meeting minutes**

The third pillar of the empirical material is made up by the 75 meetings with joint venture stakeholders I took part in, as a part of working with operative tasks at the Volvo office. Of these meetings, eight were joint venture executive committee meetings and were of particular interest for the dissertation. In these meetings, I took part as an active participant and also acted as the secretary of the meeting and was thus responsible for writing the meeting minutes.

#### *Joint Venture Executive Committee Meetings*

The aim of the joint venture executive committee meetings was to create a dialogue between the different Volvo stakeholders of the Hua Wo joint venture and to offer an arena for decision making. Eventually the *Joint Venture Executive Committee Meetings* became the official arena where the Hua Wo stakeholders met, or spoke to each other on the telephone, in order to discuss the strategy and operations of the joint venture as well as to coordinate joint venture activities.

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<sup>13</sup> Joint venture managers (even though appointed as joint venture managers by the partners) are described as joint venture stakeholders

<sup>14</sup> The respondents were free to choose which language they preferred to speak in the interview.

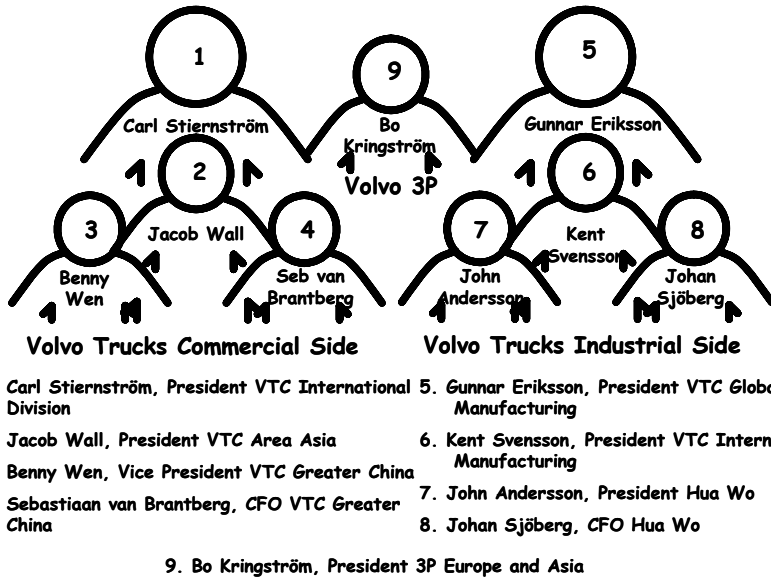


Figure 3: Permanent members of the joint venture executive committee meeting (for which fictive names have been used)

The participants in the meeting were managers identified as Hua Wo key executives by the person responsible for production of Volvo Trucks in China, “Gunnar Eriksson”, and the head of marketing and sales of Volvo Trucks in China, “Carl Stiernström”. Throughout the dissertation, Gunnar Eriksson is referred to as “*president of global manufacturing*” and Carl Stiernström as “*president of international sales*”. Fictive names have been used for all nine permanent members of the joint venture executive committee meeting.

In the joint venture executive committee meetings mainly representatives from Volvo Trucks and Hua Wo were presented<sup>15</sup>, and of these eight were permanent members. Four of the permanent members came from *Volvo Trucks’ International Division*, the so called *Commercial Side* of Volvo Trucks, and four came from *Volvo Trucks’ Global Manufacturing*, the so called *Industrial Side* of Volvo Trucks. In addition, a representative for the Volvo Group sourcing organization, *Volvo 3P*, was later added as a permanent member. The participants of the JV executive committee meeting can be seen as main respondents for the material collected and used in dissertation.

For details about main focus of the meetings and participants see “*Appendix IV – JV Executive Committee Meetings*”. In the empirical material of the dissertation,

<sup>15</sup> For a detailed list of which participants that took part in which meetings see: “*Appendix IV – JV Executive Committee Meetings*”

seven ordinary venture executive committee meetings and one extra joint venture executive committee meeting are included. I have summarized these meetings (through compiling the minutes) and in all cases but one (the first joint venture executive committee meeting held in December) recorded and transcribed them in their entirety.

### *JV Project Meetings*

The second type of meeting which is documented (most were documented through meeting notes and a few were recorded), the *JV Project Meetings*, which were closely related to the projects I was involved in.

- Joint venture research and feedback meetings
- Financial control meetings
- Legal meetings

Three types of project meeting themes can be identified: joint venture research and feedback meetings, meetings concerning legal and contractual issues (including meetings with a bearing on the engine joint venture project) and meetings concerning financial control related issues. Detailed information about these meetings is found in “*Appendix III – Project Meetings*”.

### **Project reports**

The fourth, and last pillar of the empirical material, is the project reports. The projects, which were a part of the operative tasks I conducted at the Volvo Trucks office, mainly concerned the joint venture’s relationship with different stakeholders; namely the relevant ministries (Ministry of Commerce and State Development and Reform Commission), current and future customers, the joint venture partner and other Volvo organizations.

The projects that I was involved in, and in some cases responsible for, were of three main types. Firstly, I was the link between Volvo Trucks and the legal firm Baker & McKenzie, which was the firm responsible for all the legal contracts and agreements between Volvo Trucks and the company’s Chinese stakeholders. In addition to the legal projects, I worked with financial control projects, going through the financial situation of the Chinese operations, together with the financial controller of Volvo Trucks. Finally, I carried out the joint venture research study as a project. The interviews with different Volvo stakeholders that I conducted were also a part of this project.

The projects were documented in 30 different project reports. For a detailed description of the content of these project reports see “*Appendix V– Project Reports*”.

## 2.4 The Research Journey

This dissertation can be seen as an exploratory research journey of literature and case.

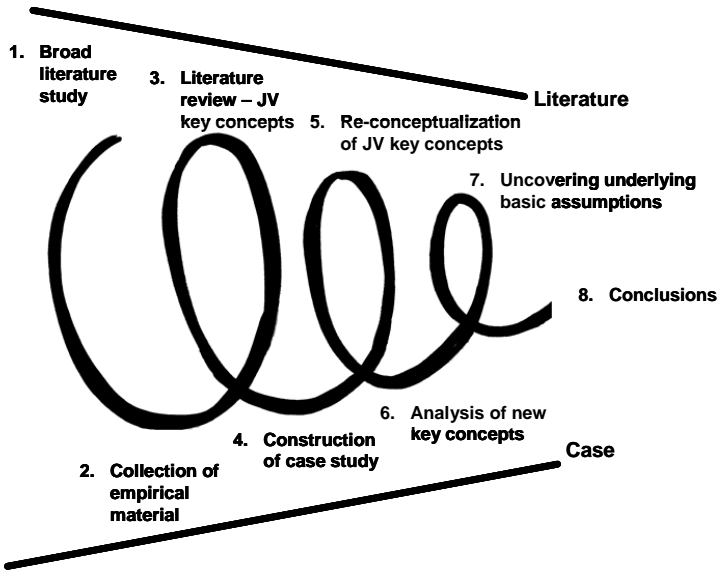


Figure 4: The Research journey

Figure 4 is an illustration of the narrowing of the gap between the case study and the joint venture literature. This rapprochement is accomplished through revealing the underlying assumptions in the literature as well as penetrating further into the case.

### *1. Broad literature study*

Before I started the research project which eventually became this dissertation, I conducted two literature reviews focusing on joint ventures in general (Bjursell et al., 2001) and Sino-Foreign joint ventures in particular (Käfling, 2001).

These literature reviews drew my attention to the concept of joint venture performance and the “JV paradox” of the rising numbers of JVs being established, at the same time as the majority of joint ventures fails.

## 2. Collection of empirical material

After the literature review I had the opportunity to conduct empirical studies (which is described in section “2.3 *Compiling the Empirical Material*” of the dissertation). I expected to find an answer to the “JV paradox”, but instead, the mystery grew since many of my preconceived conceptions about joint venture performance (deduced from the literature review) seemed not to be valid.

## 3. Literature review with focus on JV key concepts

In order to find a new and more suitable framework for a further analysis, I undertook a refined literature study, to find important factors constituting JV performance.

<i>Joint Venture Articles</i>	<i>(1990-2006)</i>
Academy of Management Review	6
Academy of Management Journal	12
MIS Quarterly	1
Strategic Management Journal	45
Administrative Science Quarterly	5
Organization Science	14
Human Resource Management	2
Information Management	1
Journal of Management	7
Organization Studies	11
J. of Production Innovation Management	1
British Journal of Management	8
Management Science	14
Research Policy	11
Journal of International Business Studies	109
Harvard Business Review	40
Leadership Quarterly	2
<i>Total number of articles</i>	<b>289</b>

**Figure 5: Theoretical underpinnings of dissertation – JV articles published between 1990 and 2006**

For this review, I started with the articles about joint venture performance which were published in the 20 most influential academic peer-reviewed management journals<sup>16</sup> between 1990 and 2006<sup>17</sup>. In 17 of these journals, 289 articles about

<sup>16</sup> The most influential management journals have been defined according to the ISI Journal Citation Reports Database in 2004

<sup>17</sup> I estimated the time span between 1990 and 2006 to be sufficient since most joint ventures in China, and elsewhere, have been established during this period of time

joint ventures were found<sup>18</sup>. From this broad literature search I continued the literature review in two ways. Firstly, I read the articles about joint ventures of my sample, and the relevant literature referred to in these articles. Then, I decided to focus on joint venture performance.

Of the 289 articles, 40 have performance in joint ventures *per se* as the main focus<sup>19</sup>. A summary of the contents of these articles is found in “*Appendix I – Tables for Performance Studies*”. Of the 40 performance articles, 26 analyze performance as perceived performance. These 26 articles became the departure point for further analysis in the dissertation.

This refined literature review (Käfling, 2005) gave me a more comprehensive understanding of how the joint venture research field has developed during the last decade, and resulted in what later became the starting point for chapter “3 *Overview of the JV Performance Literature*” of the dissertation. From this literature review, I found that JV performance is often discussed from the perspective of key concepts. These are discussed in the “4 *Key Concepts for JV Performance*” chapter. Together, these two chapters constitute “*Part II JV Performance – a Literature Review*” of the dissertation.

#### 4. Writing the case study

Parallel to working with the literature review I analyzed the empirical material and started to write the case study. However, it soon became clear that the differences between the findings from the JV literature review and the empirical material was substantial.

Rather than forcing an ill-fitted theoretical framework on the empirical case, I decided to analyze the empirical material in a way which left it as unbiased from theoretical pre-conceptions as possible.

As I was not free of theoretical pre-understanding it cannot strictly be said that I used a grounded theory research method. However, since I strive to build theory from empirical data, through a systematic inductive process (Gustavsson, 2003), my construction of the case study can be considered to be inspired by grounded theory. A grounded theory approach seemed to be appropriate since grounded

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<sup>18</sup> The three academic management journals in the sample which did not include relevant joint venture articles are: Journal of Organizational Behavior Management, International Journal of Selection and Assessment and Organizational Behavior of Human Decision

<sup>19</sup> In the first literature search all articles of the 20 most influential management journals which included the search term “joint venture” were selected. In the second literature search all articles which contained the search terms “joint venture” and “performance” were selected. Of these I estimated 26 to be classified as perceived performance articles.

theory is especially useful when a phenomenon lacks a comprehensive theoretical framework (Glaser & Strauss, 1967), when more nuances are needed and where the existing theoretical underpinnings are based on a different context (Gustavsson, 2003). As JV performance fitted all the above mentioned categories, grounded theory appeared to be an appropriate analytical approach.

From the empirical material (of the written documentation, interviews, meeting minutes and project reports) “*Part III Hua Wo – the Chinese Volvo Case Study*” was composed<sup>20</sup>. The case study consists of three parts:

1. The first part is a description of the historical background of the establishment of the Hua Wo joint venture, and is mainly based on the written documentation and interviews with the Hua Wo stakeholders.
2. The second part is the description of the activities of the Hua Wo joint venture’s first year of operation (from September 2003 to October 2004), and is based on the joint venture executive committee meetings.
3. The third part is a conclusion of the findings, description of emerging patterns and prominent issues of the case study.

For the first part of the case study, called the “*5 History of Volvo Trucks’ China Entry*”, I coded the transcribed interviews (using the qualitative software program NVivo), in order to create the framework for the first part of the case study; the historical background. All in all, there were 78 nodes (divided into twelve tree nodes). Of these 16 were subordinated the tree node coded as “Before Hua Wo”.<sup>21</sup>

For the second part of the case study, called “*6 Establishing the Hua Wo Joint Venture*” which was to identify strategic activities of the Hua Wo joint venture, I coded seven transcribed joint venture meeting recordings. Here nine tree nodes, “strategic activities” were eventually created. These nodes later became the strategic activities part of the Hua Wo case study.

After having finalized the second part of the case study, I undertook an analysis of which hidden patterns, or themes, could be found. These conclusions became the third part of the case study.

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<sup>20</sup> I also wrote an off-print of the main findings of the case study as a report to the joint venture stakeholders; called “*VTC ID Division – Area Asia China Joint Venture Management Findings and Recommendations Report of 25 August 2004*”

<sup>21</sup> The sixteen nodes (in alphabetical order) are: 1) Acquisitions of Mack and Renault, 2) Before scaling down, 3) CNHTC before reconstruction, 4) Cooperation about Steyr, 5) Differences between old and new contract, 6) First round of negotiations, 7) First selection of expatriates, 8) JFS, 9) Letter of Intent, 10) New Negotiations, 11) Partner Selection, 12) People involved in negotiation, 13) Pre visit, 14) Reconstruction CNHTC, 15) Scaling down, 16) VTC Situation 2002



In the third part of the case study, called “7 *Categorizing Activities*”, I summarized the main findings from the case study. These findings were used in order to return to the theory and suggest possible alternative foci of the JV literature.

#### *5. Re-conceptualization of key concepts*

When the conclusions of the case study had been drawn, I went back to the literature and key concepts, in order to once again compare the JV literature and empirical material.

After this comparison, I found that there still existed differences between the literature and the case findings. In order to bridge the gap between the literature and the case, I started to question the JV key concepts.

This resulted in a re-conceptualization of the key concepts of JV performance and a new, or elaborated, JV performance model. In the dissertation this re-conceptualization became the basic foundation for the “8 *Re-Conceptualization*” chapter in the dissertation. The re-conceptualization also inspired me to formulate the analytical questions that are the starting point for “*Part IV Perceived Performance – The Elaborated Model*”. Grounded in the elaborated model the analytical questions serve the purpose of refining the initial research questions to attain a more fine-grained analysis of joint venture perceived performance.

#### *6. Analysis of elaborated key concepts in empirical material*

In the “9 *Elaboration of Perceived Performance*” chapter, the elaborated model discussed in relation to the empirical material with emphasis on finding answers to the analytical questions. Here the empirical material is sorted by using the key concepts, and the findings from these analyses are presented in a summary. Empirical observations pertaining to the analytical questions of the “8 *Re-Conceptualization*” chapter are presented here.

#### *7. Uncovering underlying basic assumptions of literature and case*

After having finished the analysis of the elaborated key concepts of JV performance, I returned to the JV literature in the first part of the “10 *The Hua Wo Case and Assumptions in JV Literature*” chapter. In this part, a reason for the discrepancies between the focus of the JV field vis-à-vis the findings from the case study is found. The focus in this part of the chapter is to find the paradigm that underlies literature and case and that can explain not only what differs between theory and the empirics but also *why* these differences exist.

In the second part of the chapter the importance of the assumptions for the joint venture executives are described.

### 8. *Drawing conclusions*

In the last chapter of the dissertation, the “11 *Concluding Discussion about JV Performance*” chapter, the research journey has come to an end. The chapter consists of a discussion of the main result of the dissertation. Returning to the overall purpose and research questions the major findings are presented.

## **2.5 Methodological Underpinnings**

Looking back on the research journey I have found that it started from one place, after this did not go into the direction planned. This also holds true for the methodological twists and turns.

To summarize, the starting point of the dissertation was ethnographical. The case study can be seen as an *ethnographic study*, inspired by *grounded theory*. However, when I started collecting the empirical material I also worked with operational tasks related to the joint venture, something that made this phase of the research project similar to *interactive research*. Finally I returned to the University in order to sort the material and collect my thoughts.

### **2.5.1 Ethnography**

The point of departure of this dissertation was the need for qualitative, real time case studies within the JV research field (which has been discussed in “2.1 *Need for Re-orientation*”). As there are few longitudinal studies of joint ventures, I decided that the case study should be based on a longitudinal, real time participating observation study which would be accomplished through an *ethnographic approach*.

The ethnographic method of living and interacting with the organizational members is a way of achieving a deeper understanding of the reality of the people of an organization. In order to achieve an understanding of how and why the members of an organization construct the world as they do, the ethnographer has to interact with the members of the organization over a sufficient period of time (Rosen, 1991).

The ethnographic method is also appropriate for studying companies and/or modern organizations (Garsten, 2004) even though it has traditionally been used mostly in social anthropology research. Ethnography in modern organizations (for example through institutional ethnography) does not have the burdens of colonialism and imperialism associated with social anthropology. For a discussion about neo colonialism and imperialism in Asia research see Shamsul (1998; 2003).

### **Ethnographic challenges**

One typical challenge of conducting ethnographic research in a company context concerns the fragmentation and complexity of modern organizations. Companies are fragmented *per se* since their members have different backgrounds, values and knowledge. According to Garsten (2004), ethnography in transnational organizations is about how organizations are created and recreated by their members, how organizations are connected over borders and how they change over time. The challenge of organization ethnography has thus to do with the organizations' extendedness though time and space, as many modern organizations are transnational and outspread over several nations.(Garsten, 2004)

In order to deal with these challenges, I considered the different JV stakeholder organizations as separate fields, and also as part of a larger community. As discussed before, most of my field research was conducted in Volvo Trucks' Area Asia office in Beijing, but I also spent about a month at the Hua Wo factory in Jinan as well as a few weeks at the VTC Head Quarters in Gothenburg. These field studies made me aware of the different realities of the stakeholders and it became even more important to describe their opinions and stories as authentically as possible.

Another challenge the ethnographic researcher faces, in order to assimilate the culture and code of the organization, is how to become distanced from ethnocentric assumptions (Garsten, 2004). Ethnocentrism means that people tend to view the world from their own perspective, and position everything else in relation to this. In order to avoid ethnocentricity, I have designed the case study from the perspective of the joint venture stakeholders.

### **Ethnographic standpoints**

To be able to conduct research, an ethnography researcher should be prepared to face ambiguity, to make mistakes and handle the balance between being a part of, and at the same time distanced from, the organization (Garsten, 2004).

To handle these challenges, I have taken precautions to make the case study as authentic as possible by giving quotations and contrasting stories much space. In

addition, I have tried to protect the integrity of the respondents of the case study through making the interview quotes anonymous.

### *Impressionist voice*

In the dissertation, I have used what ethnographers call an *impressionist voice*. When writing an impressionist tale, issues of importance are seen through the eyes of the actors. As a reader, we should be able to “*see, hear and feel as the fieldworker saw, heard and felt*”. (Van Maanen 1988; p103). The researcher should refrain from analyzing when retelling the stories since:

*“The intention is not to tell readers what to think of an experience but to show them the experience from beginning to end and thus draw them immediately into the story to work out its problems and puzzles as they unfold”*. (Van Maanen 1988; p103)

In the empirical and analytical chapters of the dissertation, I have tried to write in a way that gives the different stakeholders the opportunity to express themselves. Further I refer to the respondents and course of events in the same way as they do themselves. I have chosen to write in the passive voice throughout the dissertation (except for the methods chapter) in an attempt to step back from my own impressions and opinions. When I have wanted to express my own impression of an event I have made this clear in the text.

### *Use authentic names*

One example of the use of authentic names is that I refer to the respondents in the same way as they do themselves<sup>22</sup>. In Chinese, the family name comes first, which usually has one syllable, and after this comes the given name, which usually has two syllables<sup>23</sup>. However, many Chinese employees have also westernized names that they use when working in companies with English as the corporate language and their names are instead written with the westernized given name first and the Chinese family name last<sup>24</sup>.

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<sup>22</sup> This is with the exception of the permanent members of the JV executive committee meetings, for whom I have used fictive names.

<sup>23</sup> There are several ways of transcribing Chinese characters. I have used the official Hanyu Pinyin transcription and chosen to divide the family name and given names into two names. (In Chinese given names, which usually comprise two characters, are sometimes written together in one name and sometimes divided into two names). The basic principle is that I use the same name of the respondents in the dissertation, as they use themselves in the communication with me and others in the organization.

<sup>24</sup> The basic principle is that I use the same name for the respondents in the dissertation as they use themselves in their communication with me and with others in the organization. However, if the reader is confused about the names of people in the dissertation this is not surprising, as some employees use and are called their Chinese names in some contexts, and their westernized names in others.

I have also applied the same principle when it comes to other names of things, people and companies in the organization. The difference here is between the Hua Wo management and the VTC organizations. For example, the Hua Wo management abbreviates the Chinese partner's "*China National Heavy Truck Group Corp. Ltd.*"<sup>25</sup> company name to "*China National*" when managers from VTC instead call the company "*CNHTC*". In the dissertation I have mostly used the abbreviation CNHTC.

#### *Use authentic quotes*

In the dissertation I have used authentic quotations from respondents. I have not changed the wording of the quotation in order to adapt it to written text. It is important to note that the quotations are transcriptions of spoken language.

A large number of the quotes from the interviews and a few from the JV executive meetings, are translated (mostly from Swedish) to English. I have tried to translate keeping as close to the original meaning as possible. In many cases, I have listened to the same respondent talking English (from a recording of another interview or meeting), and after this translated what was said to English. Nevertheless, these quotes cannot be as what was really said. As a consequence, I have always indicated when a quote has been translated to English.

#### *Anonymous quotes from interviewees*

In order for the stakeholders to be able to express themselves freely, I have made the quotes from the interviews anonymous with a few exceptions. In the case of the president/general manager of the joint venture, I have chosen to write out his title after the quote, since I did not want to make any changes to the quotations and he often expresses decisions in terms of "*-I decided*". The former president of Volvo Trucks is the second exception from the rule. In both cases, I have received permission to quote them using their titles in the dissertation.

Further, I have chosen to use fictive names for the nine permanent members of the joint venture executive committee meeting. When I have changed names in quotations I have indicated this in the text, writing the [fictive name] within brackets.

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<sup>25</sup> In Chinese "中国重型汽车集团有限公司"

### *A note on language and social codes*

A researcher using ethnography as a research method must learn to speak the language of the organization as well as learning its social codes. The background of the researcher is important to inspire trustworthiness. In order to write about ethnography, the researcher must have a basic understanding of the reality of the organization that is studied. This understanding should at a minimum, capture the concepts and rules, practices and beliefs and language of the members of the organization (Van Maanen, 1988).

I assessed my background to be sufficient to conduct an ethnographic study of the Hua Wo joint venture. For a period of more than ten years, I have had an all-consuming interest in both Business Administration and Sinology. I have been studying the Chinese language (汉语) as well Chinese society, history and politics for a decade. Since I started to conduct research on Sino-western joint ventures, I have been invited as a speaker, an interpreter and an expert.<sup>26</sup> My master's degree in Business Administration (specializing in organization theory) and my research focus on joint ventures between Chinese and Western companies, has given me a background suitable for a study of this nature. I assimilated the concepts and beliefs as well as the practices of the different Volvo organizations during the time spent making the participating observations.

#### **2.5.2 Interactive research**

Another important methodological issue of the dissertation is the *interactive research* element.

That a part of the empirical material collection would be as a result of interactive research was not intended from the beginning. However, when I started the participating observation I soon found myself in a position which very much resembled that of an interactive researcher.

After giving this some thought I came to appreciate the advantages of an interactive element in the dissertation, such as increasing the possibility to find research issues of practical importance for the respondents as well as getting access to the organization. At the same time, I was aware of the potential pitfalls, such as problems related to loyalty, that I had to address.

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<sup>26</sup> I have been key note speaker in several conferences on the theme of China investments. Furthermore, I have lectured about the Chinese economy and the political system in several university courses (including an MBA-program), and supervised students' bachelor theses of China related issues. In addition to this, I have been used as an interpreter e.g. for members of the provincial government of Östergötland, and for Volvo Group executives. I have been interviewed as an expert in newspapers and well as on TV.

### **Standpoints – interactive research**

When I started to collect the empirical material, I was asked to also take part in everyday tasks at the office (at the Volvo Group Asia Head Quarters in Beijing) that was related to the Hua Wo joint venture. (The content, of this work has been described in “2.3 *Compiling the Empirical Material*”). The reason for this wish was twofold, and benefited both the organization and me: For Volvo Trucks and Hua Wo, my language skills and business school training were welcomed in their daily operations, and for me this resulted in access to important and confidential internal documents (as taking part in the organizational tasks made me “an insider”).

Since access problems are generally known to hamper JV research I appreciated this solution, even though from the beginning I foresaw the methodological challenges involved (which will be discussed in “2.7 *Bleeding Blue*”). In order to get a balance between immersion and distance, I have chosen to limit the interactive approach to the empirical parts of the dissertation (namely to the “5 *History of Volvo Trucks’ China Entry*” and “6 *Establishing the Hua Wo Joint Venture*” chapters of the case study).

The interactive element of this dissertation can be summarized into three parts:

Firstly I have worked with operational tasks, in project form, for several of the joint venture stakeholders<sup>27</sup>. The focuses of these projects have been jointly decided, as we have designed the issues for study together. Examples of this are the financial and legal projects, as well as the market reports.

Secondly, to a certain extent the joint venture stakeholder have been involved in the research process as I routinely came back to them with feed back concerning empirical findings.

- After the real time participating observation study ended in 2004 I presented the first empirical findings in a report (Internal documentation: “VTC International Division - Area Asia China Joint Venture Management Findings and Recommendations Report” by Å. Käfling) which was distributed to the head of Volvo Trucks in China. The findings from the report were also discussed with the president of Hua Wo. As none of the above mentioned managers had any objections to the findings I decided to continue and write the first draft case study from the project report.
- Having finalized the first draft version of the case study, follow up interviews were conducted with six of the eight permanent members of the joint venture

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<sup>27</sup> I have been involved in projects together with organizational members from Volvo Trucks, Volvo Group, CNHTC, Powertrain and Hua Wo

executive committee meeting, the so called key respondents<sup>28</sup> in 2006. These interviews were later used in order to write the epilogue of the case study, as well as make sure that the first part of the case study, the background and the establishment process of the Hua Wo joint venture, was accepted and supported by the respondent. The feed back from the respondents resulted in no large alterations to the case study this time either.

The third part of the interactive element is the hope that the dissertation will be of interest for JV practitioners. To achieve this I have chosen to make the second part of the case study into a recapitalization of the Hua Wo establishment from the perspective of the JV executives. I have chosen not to “streamline” this part of the dissertation, instead many of the colorful details, practical discussions and descriptions of everyday life remain.

## **2.6 *Alternative Readings***

The last research issue that should be accounted for in qualitative research, according to Alvesson and Sköldbberg (1994), is how the text can be read without taking the intentions of the author into consideration.

In the case of this dissertation, I expect that many readers interpret the text in ways other than I may have intended. The large number of interesting issues of the Hua Wo case calls for many other studies and ways to tackle them. Actually one of the greatest difficulties has been to choose which perspectives to consider and which stories to tell. Therefore, when thinking about the different ways to this dissertation what is *not* present in the text also becomes important.

First, and most obvious, women are absent from this story. I have not analyzed this, or its implications in the dissertation, but naturally a researcher with a gender relations focus could easily read the text as an account of masculine superiority in organizations as part of a societal system of power relations. From this perspective the lack of women (and gender perspective) in this book is not surprising, since the “invisibilization” of women is in itself a part of the masculine wielding of power.<sup>29</sup> However, since a gender analysis would call for a dissertation itself, I have decided to save the gender issue for future studies.

In the same way that women are excluded from the study, so are the employees at a non-managerial level in the stakeholder organizations. This dissertation only

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<sup>28</sup> The reason that I did not interview the last two permanent members was because “Sebastiaan van Brantberg” had finished his expatriate contract in China and was working in Brazil, and “Benny Wen” was abroad on a business trip and therefore unavailable for interviews.



looks at the perspective of the JV executives. This choice, to focus on the managerial level, is a result of the research questions. With the research questions in mind, I have chosen to narrow the respondents down only to JV managers. However, this is not the same as regarding people other than the JV managers as less important. Quite the contrary, to describe the experiences of organizational levels other than the managerial offers an excellent arena for further studies. For a comprehensive and interesting account for gender in organizations, and in organization theory literature, see Sundin (1998).

Furthermore I can be criticized for not taking the cultural specific aspects into enough consideration. It is undoubtedly true that this case study can be interpreted as an account of a cultural phenomenon. All the involved stakeholder organizations are characterized by strong organizational cultures. However, since a study of organizational culture is not the direct aim of the dissertation, I have not labeled the dissertation a “culture study” but instead focused on the internal issues of what can be viewed as the cultural phenomena. An example of this is that I call attention to different joint venture stakeholders’ aims for different levels of control, but refrain from explaining that as a result of their different cultural backgrounds.

The reason why I have not discussed national culture in the dissertation at all, despite the ethnographic approach and despite the fact that the joint venture is located in China, is that I could not find any reason to assume that cultural differences<sup>30</sup> influenced the performance of the joint venture. For a review of culture see Kroeber and Kluckhohn (1952). Actually the national culture (as in “Chinese versus Westerners”) was only mentioned once in an interview, and then only loosely related to performance. This was when I asked a respondent if he could mention a difficulty in the JV establishment, and he answered “different national cultures”. Since I had spoken with this respondent several times and he had never mentioned this issue before I asked him, when I had turned off the MD recorder, why he chose to bring it up now. The answers that I received were that “the real reasons, conflicts between the JV management and foreign partner, were too sensitive to discuss openly” and “to explain problems with culture differences seemed more scientific”.

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<sup>30</sup> Culture is here defined in accordance with the Kroeber and Kluckhohn (1952) definition: “Culture consists of patterns, explicit and implicit, of and for behavior acquired and transmitted by symbols, constituting the distinct achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i. e., historically derived and selected) ideas and especially their attached values”. (Kroeber and Kluckhohn 1952; p81)

Alternative audiences

From the beginning several audiences have been intended for this text. Firstly, I hope to be able to contribute to the academic discussion about international joint ventures in general and about Sino-foreign joint ventures in particular. Secondly, this dissertation also contains a piece of contemporary industry history with its description of how foreign investments have been carried out in China over more than a decade. Finally this dissertation is a “white book” of the Hua Wo establishment which will hopefully be of interest to the actors in the study, the management teams of the stakeholder organizations of the Hua Wo joint venture.

2.7 Bleeding Blue

One particular challenge with this dissertation is that it is based on a case study, while the research was conducted from an “insider’s perspective”. In many ways the way in which the case study was conducted is the greatest strength of the dissertation. At the same time, this calls for acknowledging the specific difficulties which appear when conducting research from the inside of an organization.

Working with the case study I found it essential to distinguish between the times when I took part in the phenomena studied, and the times when I was not. Technically I was an “insider” from the moment when I got my own desk, computer and business cards (complete with Volvo logotype and position, see Figure 6) at Volvo Trucks in Beijing, September 2003, until I had attended my last JV executive committee meeting in October 2004 and returned to the University in Linköping. For the Volvo executives, I undoubtedly became an “outsider” when I left my position as a “Business strategy analyst” at the Volvo Trucks’ Area Asia office in Beijing.

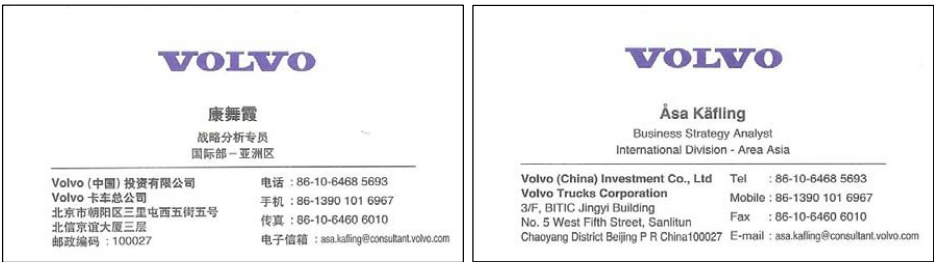


Figure 6: My business cards at Volvo Trucks in Beijing

Emotionally and analytically, the distinction between insider and outsider is more a matter for different parts of the dissertation than only of time and space. The case study is written close to the respondents and activities of the joint venture. As a result, this part of the dissertation bears all the advantages and disadvantages of

immersion. The analytical part was instead written when I had distanced myself from the organization. In order to balance my immersion in the case study I chose not to include the executives in the analyses of the empirical findings.

In line with other ethnographic researchers, (c.f. Aurell, 2001) I thus divided the dissertation work into two phases: the participating observation phase, where I aimed to get as close as possible to the respondents in order to avoid ethnocentricity (Blumer, 1969)<sup>31</sup>, and the analytical phase, where I distanced myself from the empirical material in order to reach a more aggregated analysis.

A practical result of this is that I sometimes refer to myself as “Åsa” or “Åsa Käfling” in the text, instead as the author. This might be viewed as a bit strained but the intention is to distinguish between the two roles, the employee researcher conducting interactive research versus the critical researcher analyzing the empirical material.

### **Reflecting on being inside**

The most common remark I have received from colleagues and supervisors at the university is whether it is possible for me to study a group, and a course of events, that I have taken an active part in, both as a researcher and as an employee. In line with this I have been repeatedly reprimanded by colleagues, and supervisors, for saying “we”, when talking about Volvo and Hua Wo. A few researchers have also been hesitant about findings which are a result of research conducted in such a context.

For me, it has been important to weight the advantages and disadvantages with the insider approach vis-à-vis my research standards. As I wrote in the beginning of the chapter (see “2.2 *Dissertation Study Design*”) there are four research requirements that I strive to fulfill. Firstly, I want to have accuracy in accounting for and depicting the empirical reality of the phenomena studied. Secondly, I want to be open to the importance of interpretation. Then I try to critically reflect on the politics of research work. Finally, I acknowledge the ambiguity of language to represent the empirical reality.

#### *Accuracy*

The basic requirement of qualitative research is that it is accurate in describing and depicting the empirical world. This holds especially true for organization theory,

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<sup>31</sup> Blumer (1969) writes: To try to catch the interpretive process by remaining aloof as so-called ‘objective’ observer and refusing to take the role of the acting unit is to risk the worst kind of subjectivism – the objective observer is likely to fill in the process of interpretation with his [her] own surmises in place of catching the process as it occurs in the experience of the acting unit which uses it” (Blumer 1969; p86)

as much effort is put into understanding the conceptions of the members of an organization in order to capture the central phenomena and processes in these organizations (Hellgren & Löwstedt, 1997). For me the possibility to study the joint venture from the inside proved to be crucial to allow me to penetrate, and understand, the activities of the organization. Taking part in the activities, I got a much thorough understanding than I would ever have got otherwise. One example of this is the access to the financial agreements between the Hua Wo stakeholders, which I would not have gone to such length to understand if I had not been asked to work with financial issues. In the same way, I would not have spent so much time and effort on the contracts if I had not been working with the legal issues of the joint venture. Actually, as an outsider I would probably never have had the opportunity to study the JV contracts at all.

My estimation is that the accuracy of depicting and describing the empirical reality of the JV executives benefited from me taking part in the operational activities related to the Hua Wo joint venture.

### *Interpretation*

During the participating observation phase I made a first interpretation of what happened in the organizations that I was studying. I started to develop this interpretation (which is presented in the case study) during the time I was located in China, and was interacting with the Hua Wo stakeholders. As the activities of the joint venture (as they are presented in the case study) are extracted from meetings and minutes from the executive committee meetings it is reasonable to assume that being an insider had an impact on how I worked with this material.

Since I attended, recorded and transcribed the recordings, and wrote the minutes myself, the meeting's location at one (or other) of the case companies did not influence the material being clustering into the activities. None of the executives ever commented on the minutes or on the clustering of activities.

I have chosen not to use remarks taken out of context, use unguarded rash words, and design quotations in order to get the most spectacular effect. However, this is a result of my ethical standards and not an attempt to shield the stakeholders of the study from critical investigation.

Nevertheless, in one way I have protected the organizations whose operations I have taken part in. I have disregarded any kind of sensitive material which has no bearing on the research issue of the study. In these few cases I have commented on this in the text. Examples are specifications of truck engines, brand names and detailed figures from income statements.

My estimation is that the interpretation of the empirical material was not negatively influenced by the fact that I took part in operational tasks related to the joint venture. Actually, the executives never once tried to influence, interfere or change anything in my interpretation of the activities. In addition, the respondents never tried to intervene in the actual research process (for example how much time I spent in different locations or which respondents I interviewed) or wanted to change sensitive statements recorded in written text for internal political reason.

### *Critical reflection*

The political and ethical dimensions of the organizational context became essential for me during the participating observation phase. Alvesson and Sköldbbergs (1994) mostly emphasize the importance of *reflecting* on the political and ethical dimensions, whereas I was rather more concerned by acting ethically vis-à-vis the political tension between stakeholders and stakeholder organizations.

Since I conducted the study on the fringes of organizations with internal communication problems, a great challenge for me was not to get drawn into the internal conflicts. I failed once in this respect, and I failed terribly. In an argument I made it clear that I disagreed with a decision taken in one of the stakeholder organizations. This was at the very beginning of my stay in China and as a result of this argument I was almost sent back to the University again. After this, I learnt to avoid taking a stand in any potential issue of conflict. This was probably the most hard-earned lesson of the whole dissertation.

When it comes to critical reflection on the political and ethical dimensions of the organization as the third prerequisite for good qualitative research, it is clear that it was influenced by me being an insider. The most obvious impact was that I thought a lot more about political issues and ethical standpoints, than I had done before.

### *Acknowledgement of ambiguity*

When it comes to the last issue, to be aware of the insufficiency and ambiguity of using the language in order to capture the empirical reality, this was possibly the greatest difficulty in conducting the empirical study. Later it became clear that in some respects I had fallen into the trap of “going native”, as I often failed to understand the difficulties for others to penetrate the empirical material.

Trying to make up for this, I have re-written the case study several times in order to make it more easily accessible. In addition, I have attached a case specific dictionary where the most common internal expressions and words are explained. Nevertheless, to keep in mind the insufficiency and ambiguity of language has been a great challenge in working with the empirical parts of the dissertation.

### **Coming out**

To summarize, the impact of the inside perspective in the case study has been substantial. The case study can even be seen as written in interaction with the joint venture stakeholders. Taken together, I think this design has been positive for the quality of the dissertation. Nevertheless, as a balance between immersion and distance is needed in academic research, the analysis chapters are written from an outside perspective. The analysis can instead be seen as a dialogue between the empirical material and the theoretical framework.

In the theoretical underpinnings also I have worked with the requirements of Alvesson and Sköldberg (1994) as guidelines. What I mean by this is that I wish to present the standpoints of the researchers as accurately as possible in the text. In addition, I have given myself scope to account for different interpretations in the field, as well as to critically reflect on political and ethical conditions. Finally I have tried not to remove the awareness of the difficulties when I have described empirical phenomena in text. With this said, I will now continue by presenting the theoretical underpinnings of the dissertation.

## PART II. JV PERFORMANCE – A LITERATURE REVIEW





### 3 Overview of the JV Performance Literature

*"It is fair to say that there is, as yet, no consensus on the determinants of IJV performance."* (Child 2003; p284)

#### 3.1 Joint Venture Performance

The importance of international joint ventures has increased during the last decade, a result of both the increasing number of new establishments and the increase in the strategic significance of the joint ventures formed (Geringer & Herbert, 1991). At the same time, IJVs have a bad record when it comes to survival, and most authors claim that the majority of international joint ventures are dissolved. (For a summary of studies ranging from about 30% to 70% dissolution rates for international joint ventures see Hennart & Zheng (2002).

This paradoxical situation has led to many researchers, as well as practitioners, turning their attention to the factors that influence the success, or failure, of international joint ventures in general, and Sino-foreign joint ventures in particular.

During the last ten years, the whole life cycle of an international joint venture, in China and elsewhere, has been studied from a performance point of view.

The influence of entry mode on performance has been discussed (Luo, 2000; Sharma, 1998) as well as the importance of partner selection (Glaister & Buckley, 1997; Luo, 1997; Luo, 2000) and bargaining power (Yan & Gray, 1994, 1998) in the joint venture negotiation process. Further the importance of flexibility vs. contract completeness has been addressed (Aulakh & Madhok, 2002).

From the operations point of view, performance has been correlated with learning (Cyr & Schneider, 1996; Steensma & Lyles, 2000) as well as how technological transfer (Grønhaug et al., 1999; Li et al., 2001) and technical efficiency (Chow & Fung, 1997) influence performance. The way in which performance can be predicted has also received much attention (Child & Yan, 2003; Hennart & Reddy, 2000). The relationship between control (Ding, 1997, 1997; Mjoen & Tallman, 1997; Yan & Gray, 1998), conflict (Ding, 1997; Pearce, 1997; Steensma & Lyles, 2000) and performance has been investigated. Other issues addressed are how culture (Glaister & Buckley, 1998; Li et al., 2001), human resource management (Gong et al., 2005; Zeira et al., 2004) and social identities (Salk & Shenkar, 2001) are interrelated with joint venture performance.

However, despite the large number of articles about joint ventures, no unambiguous answer to the question of what enables international joint venture success has been given. Instead, the field has been divided into sub units, each that use different definitions of joint venture performance (Dussauge & Garrette, 1995) and different ideas of whom should define it (Child, 2003).

### 3.2 Measures of Performance

When evaluating IJV performance, most authors investigate the financial situation of the joint venture and/or its longevity, with so called *objective measures*, or they investigate the opinions about the alliance of the managers involved, with so called *subjective measures*. In the 1980s, most studies about international joint venture performance used survival and stability measures (Parkhe, 1993). In the 1990s, studies of financial performance (e.g. shareholder wealth effects of announcements of joint venture formation) and perceived performance (e.g. satisfaction with overall performance) dominated<sup>32</sup>.

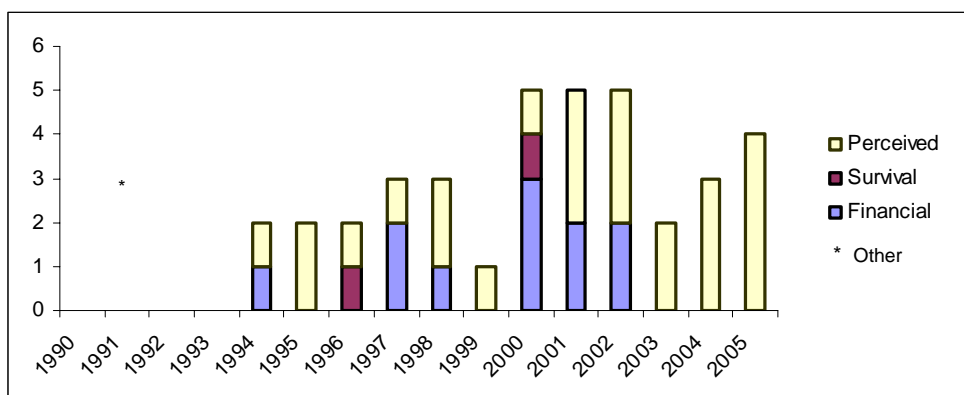


Figure 7: Articles published about performance in joint ventures between 1990 and 2005 in the 20 most influential management journals

#### 3.2.1 Objective measures on performance

Objective measure studies of performance dominated the international joint venture field in the early studies. The first studies of performance in international joint ventures focused on financial outcome, e. g. return on investment

<sup>32</sup> Studies about performance published between 1990 and 2006 in the 20 most influential management journals (according to ISI Journal Citations Report). For detailed information about the articles in the sample see “Summary of measures used in recent joint venture performance studies”

(Tomlinson, 1970); and stability, e. g. changes in ownership of a joint venture (Franko, 1971).

### **Financial measures**

Recent *international joint venture* studies with a financial performance perspective have studied shareholder wealth effects. Wealth effects associated with the formation of joint ventures (Reuer & Koza, 2000; Reuer & Miller, 1997; Woolridge & Snow, 1990) have been especially in focus. In these studies, performance is defined as “creation of shareholder wealth” (Reuer, 2000) and the wealth effect has traditionally been studied through event studies.

Other issues studied from a financial performance perspective are how mode of market entry influence profitability in joint ventures (Pan, 1999) and shareholder wealth effects influence in later stage of collaboration (Reuer, 2000).

In a few studies of *Sino-foreign joint ventures*, analyses have been based on figures from balance sheets and income statements that the joint ventures have submitted to governmental institutions, Luo (1997; 2002) is an example of this. This procedure has facilitated the possibility of studying how partner selection influence financial performance (Luo, 1997) and how contract and cooperation are related to the sales level and return on investment of a joint venture (Luo, 2002).

### *Critiques of financial performance measures*

Financial performance measures were used, in order to capture *IJV performance per se*, during the early age of joint venture research. The reason why they were abandoned as proxies for joint venture performance is mainly that stock market reaction to joint venture announcements is a poor indicator of how a joint venture will perform over its life cycle. Another more practical reason is assessment difficulties (Child, 2003), a result of transfer prices and non-transparent accounting. In addition financial measures only cover a limited range of the stakeholders' goals.

For *Sino-foreign joint ventures* it is even more difficult to evaluate financial performance, since the financial result is often predetermined. The background to this is that the foreign partner often wants financial control of the joint venture, and appoints the financial controller of the joint venture. Since the foreign partner controls the accounting and financial planning of the joint venture in this way the domestic partner has to be assured that the joint venture accounting will not result in a large loss in the joint venture which will be shared by the partners (according to their respective equity). This is otherwise a risk if the foreign company applies transfer pricing principles. Instead, the profit from the joint venture is decided before the operations start, something that will give the domestic partner a

“guaranteed return”. The foreign company adjusts the transfer price in accordance with the pre decided profit of the joint venture, which eventually results in a “real” loss or profit which will be accounted for somewhere else in the partner company<sup>33</sup>.

#### *Development of partner related financial outcome research field*

In recent studies financial measures still play an important role, but not as a proxy for joint venture performance. Instead shareholder wealth effects studies have formed a separate research field aiming to explain how joint venture announcements influence/create shareholder value. Research interests still focuses on performance but attention has shifted from joint venture performance towards partner performance related to joint venture announcement, establishment and termination. Other examples of research interests are stock exchange reactions to a partner’s decision to acquire or divest a joint venture (Kumar, 2005).

#### **Survival, stability and longevity measures**

Many of the early studies of *international joint ventures* equated *longevity* and *stability* with performance. The influence of equity and ownership for joint venture stability has been emphasized in many joint venture studies in which instability has been seen as a failure. Since studies exist which show a correlation between perceived performance and *survival* (Geringer & Hebert, 1991), this has been used as an argument for using joint venture survival as a proxy for joint venture performance.

*Stability* has also been used in order to evaluate performance. There are three types of instability, related to changes in equity, which can be distinguished<sup>34</sup>. Firstly a joint venture can be liquidated, which means that the operations are terminated and the company’s assets are sold. Secondly, the joint venture can be sold (in total or in part) to one of the partners. Thirdly, the joint venture can be taken over by an outside company. However, a correlation between joint venture stability and joint venture satisfaction has been hard to find. Even in studies where perceived performance has been correlated to joint venture survival the same relationship to stability has not been found. One example of such a study is Geringer and Herbert (1991). When the subjective measure of satisfaction (level of goal achievement) was correlated with the objective measures of survival, duration and stability the result showed that satisfaction is strongly correlated to survival and duration,

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<sup>33</sup> I have looked for joint venture studies about this but have found none, perhaps as a result of the delicacy and possible controversy of this practice. However, after spending time in a great number of Sino-foreign joint ventures I have experienced that this is a widespread practice.

<sup>34</sup> This is one definition. There exist several slightly different definitions of joint venture instability.

although stability has little direct relationship with joint venture satisfaction (Geringer & Hebert, 1991).

As a result the relationship between instability and failure has thus been questioned in many studies, which show that even though a joint venture was unstable it was not dissolved. According to Gomes-Casseres (1987) a widely spread misinterpretation is that joint ventures are more likely to be terminated than wholly owned companies<sup>35</sup>. That is because the dissolution rate of joint ventures is seldom compared to the rate of dissolution of other organizational forms (Gomes-Casseres, 1987). Or in his words:

*“The importance of joint venture instability can be easily misstated if one ignores the instability of alternative structures. [...] Wholly owned ventures were in fact more likely to end in liquidation than jointly-owned ones. But liquidation was not an important source of instability in either case.”* (Gomes-Casseres 1987: p98)

Gomes-Casseres (1987) instead suggests that joint ventures undergo ownership changes as a result of the wrong choice of the initial organisational form (or entry mode). In the industries or countries where joint ventures are the most popular entry mode, equity changes resulting in wholly owned companies are the least likely. At the same time, the level of ownership changes transforming wholly owned companies into joint ventures is most likely to be formed in the industries and countries in which this form is dominant. (Gomes-Casseres, 1987) Later findings show that a joint venture is more likely to be unstable if the equity is unevenly divided between the partners (Blodgett, 1992). Companies with equity levels of less than 20% are also more likely to sell their part of the joint venture than partners with equity shares of more than 50% (Dhanaraj & Beamish, 2004).

Studies of *Sino-foreign joint ventures* show that joint ventures are less likely to be terminated than other forms of cooperative arrangements and that from a longevity perspective there are no differences between joint venture and wholly foreign owned companies (Pan & Chi, 1999).

### *Critique of survival, stability and longevity measures*

The validity of using longevity and survival measures as indicators of *IJV performance* has been criticized in later years. Longevity and duration measures are problematic in the sense that longevity might not be the aim of the joint venture. If for example learning is the motive behind the joint venture, then the termination of a joint venture agreement should not be seen as joint venture failure

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<sup>35</sup> Instead joint ventures were somewhat more unstable than the wholly owned companies in that sense that the equity division more often changed in joint ventures.

if knowledge acquisition has been established. (Hamel, 1991) It has even been suggested that stability and longevity should receive *less* attention in the future as “*while the creation and termination are significant events for the management of and strategic use of alliances, these measures do not capture the consequences of many of the other decisions and issues that unfold during alliance development.*” (Olk 2002, p138)

For *Sino-foreign joint ventures* the issue of stability is even more problematic. This is a result of institutional regulation greatly influencing the distribution of equity between the parent companies. For many joint ventures (in so called strategic industries) the maximum percentage of foreign ownership is regulated by law. Survival is an equally problematic proxy for success, since examples of unsuccessful joint ventures still in operation as a result of political pressure (or political consideration) exist.

#### *Development of a joint venture survival research field*

Stability and survival measures have been used to analyze performance more seldom in more recent years. Instead, joint venture stability and survival are now studied by researchers who focus directly on these phenomena. As such joint venture survival and longevity has been studied from a wide range of perspectives such as a management control perspective (Steensma & Lyles, 2000) and a competition perspective, e. g. how competition between joint venture partners influence joint venture duration (Park & Russo, 1996).

For *Sino-foreign joint ventures*, the influence of cross culture differences on joint venture longevity has been studied (Hennart & Zheng, 2002). In addition, joint venture growth and survival has been correlated with the characteristics of the partners, like age, industry relatedness and size (Lu & Xu, 2006).

### **3.2.2 Subjective measures on performance**

Instead of defining joint venture performance with objective measures, subjective measures of performance, such as perceived goal achievement and/or joint venture satisfaction, have become the most common way of evaluating joint venture performance. Performance studies which use subjective measures are known as studies of perceived performance.

#### **Perceived performance**

Most recent studies assess *international joint venture* performance from the perspective of stakeholder satisfaction. But as early as in 1983 Killing used perceived performance measures, by means of management assessment, in his study. Here joint venture performance was measured through the (General)

manager's perception of the joint venture performance, where the managers choose between *poor*, *satisfactory* and *good* performance. In addition, Killing himself evaluated the performance of the JV, where liquidation or major reorganization were used as measures of failure. Another early study of perceived performance which gained influence, is that of Beamish (1985). During the 1990s, the number of published studies within joint venture perceived performance research grew rapidly. As a result, the number of perspectives as well as the issues studied multiplied.

Even in the case of *Sino-foreign joint ventures* the use of perceived performance has gained acceptance. As both financial and longevity measures have proved to be unreliable most recent studies of joint ventures in China use perceived performance measures .

The concept of *perceived performance* will be further analyzed in “4 Key Concepts for JV Performance”

#### *Critique of perceived performance measures*

The most important critique of using subjective measures of perceived performance is related to the difficulty in comparing results and building a comprehensive theoretical framework.

For *subjective performance measures* a number of different measures such as over all satisfaction (Choi & Beamish, 2004; Lee & Beamish, 1995), satisfaction of a number of constructs (Child, 2002; Gong et al., 2005; Lin & Germain, 1998; Luo et al., 2001), strategic goal achievement (García-Canal et al., 2003; Yan & Gray, 1994), overall performance (Barden et al., 2005; Dhanaraj et al., 2004; Fey & Beamish, 2001; Stensmaa et al., 2005), perceived financial performance (Isobe et al., 2000; Makino & Delios, 1996; Pan & Chi, 1999), a combination of over all performance and performance of a number of constructs (Lane et al., 2001), and finally a combination of over all satisfaction and strategic goal achievement (Luo & Park, 2004) have been used.

Even when it comes to *perspectives*, joint venture performance is defined differently by different authors. Joint venture performance is in some studies defined by both partners (Yan & Gray, 1994) only by the foreign partner in some cases (Makino & Delios, 1996; Mjoen & Tallman, 1997) and only by the domestic partner in others (Pothukuchi et al., 2002). In some studies only the CEO (General Manager) is asked to evaluate the joint venture performance (Gong et al., 2005; Pan & Chi, 1999; Stensmaa et al., 2005), or the CEO and/or deputy CEO (Choi & Beamish, 2004). While in others it is the joint venture (top) management (Ariño & de la Torre, 1998; Luo, 2002; Luo & Park, 2004) that evaluate joint venture performance. Finally there are a few examples of studies where both

representatives from the partners and the joint venture management are asked to evaluate the joint venture performance (see however Child, 2002; Fey & Beamish, 2001; Lane et al., 2001). The great differences in the constructs that are used in the assessment of satisfaction, as well as which stakeholders that are included in the sample, have led to ambiguity and comparison difficulties. These differences are especially problematic for *Sino-foreign joint ventures* as studies show extensive differences in the motives behind joint venture formation between foreign and domestic owners.

### **3.3 Summary of Measures in Recent JV performance Studies**

When summarizing the joint venture performance literature, it becomes clear that the joint venture research field has matured during the last 15 years in the sense that performance is more often defined and accounted for. Paradoxically, one example of this is that the total number of articles that explicitly focus on performance is lower. Instead, the joint venture theory framework has been more “fine grained”. Instead of using the term of performance as a general heading, three different fields of research have evolved, based on the financial, survival/stability and perceived performance measures.

However, it is important to keep in mind the wide range of performance measures and possible differences in perspectives between JV stakeholders, when studying those issues and factors that may have an impact on performance.



## 4 Key Concepts for JV Performance

*“Work on IJVs represents a research agenda, not yet fully accomplished. Concentration on the special areas of IJVs (motives, partnering, management, control and performance), perhaps sequentially, will lead us out of the morass which justifies the criticism that much of the work is ‘non-cumulative’.”* (Buckley and Glaister 2002; p67)

### 4.1 An Integrative Approach to JV Performance

As a result of the difficulties involved in assessing performance, demands for more comprehensive theoretical base for the joint venture field have been voiced in several joint venture studies.

One of the most articulate critics of the fragmentation of the joint venture field is Parkhe (1993; 1996). He argued, as early as in 1993 that joint venture research has focused too much on performance vis-à-vis isolated issues instead of interconnecting these issues into coherent theoretical structures. In order to achieve a broad understanding of joint ventures the dimensions of *motives behind IJV formation, partner selection characteristics, control, and joint venture performance* should be taken into consideration.

Firstly, the choice of organizational structure should be addressed. Little is known about *motives behind IJV formation*, or how managers make decisions when they are in the process of entering a joint venture since:

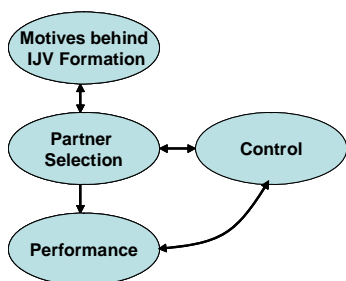
*“Few studies have examined in depth the critical management decision-making process that weighs the expected cost and benefits associated with the choice of IJVs, including their fit into an overall global strategy.”* (Parkhe 1993; p233)

The alliance structure design should also be evaluated. The *partner* aspect of a joint venture or how companies assess partners, both when it comes to partner selection and into negotiating a partnership structure, still need to be addressed. In the case of the partnership structure, studies should capture both how companies create incentives that remunerate forbearance and discourage opportunistic behaviour (both *ex post* and *ex ante*). In this sense *control* becomes central. Finally, the process of how the relationship evolves, and the result of the structuring of the joint venture should be analyzed in depth because:

*“Dynamic changes have received perhaps the least amount of systematic attention in existing literature, a critical omission in the development of a more complete theory of IJVs.”* (Parkhe 1993; p234)

### Key concepts in the dissertation

Parkhe (1993) argues that a theoretical framework, of the core dimensions outlined in Figure 8 should combine “these partial, related dimensions into a theoretical whole” (Parkhe 1993; p234).<sup>36</sup>



**Figure 8: Modified Parkhe (1993) model**

*Source:* A Parkhe (1993) “‘Messy Research’, methodological predispositions, and theory development in international joint ventures.” *Academy of Management Review* p.230

To integrate these key concepts is especially important because:

*“Examining the tightly interrelated IJV aspects piecemeal, without concomitant efforts to reintegrate them, reflects the erroneous belief that these phenomena are surgically separable.”* (Parkhe 1993; p247)

In order to achieve a deeper understanding of the key concepts *motives behind IJV formation, partner selection characteristics, control* and how they are related to *joint venture performance*, the main focus of the following part of the chapter will be on these key concepts.<sup>37</sup>

<sup>36</sup> An impressive amount of joint venture articles on the core concepts have been published since Parkhe (1993) called for a “deeper understanding and systematic incorporation of core concepts in future research” (Parkhe 1993; p228). However, the fragmentation, of the international joint venture performance research field, has not declined during the last decade according to Buckley and Glaister (2002) so the demand is still valid, a decade later.

<sup>37</sup> There is an important limitation in the use of the Parkhe (1993) framework in this study. This is because Parkhe (1993) wants the study of these concepts to lead to insights of trust, reciprocity, opportunism and forbearance. I have not used this approach when analyzing the concepts, which resulted in a different re-conceptualization.

## 4.2 Motives in Joint Ventures

Before a company decides to access a new market, there are several important issues to consider. One essential decision to make is the choice of entry mode or more specifically, the level of desired control over and flexibility of the investment (Bengtsson et al., 1998). It is important to understand that different countries and industries can impose restrictions on investments. In many developing countries, foreign companies have no other choice than to co-operate in joint venture form with local partners. In this way, the motives behind the joint ventures that are established in developing countries differ in many ways from that of motives behind international joint ventures in the developed world.

### 4.2.1 Motives behind international joint ventures

When companies in the developed world have chosen to establish a joint venture instead of e. g. acquiring a company or establishing Greenfield investment, a wide range of motives underlie this decision.

Companies that establish joint ventures often want to: reduce risks, achieve economics of scale, support technologies and/or patents, block competitors, overcome trade barriers, expand internationally and integrate vertically with a partner (Contractor & Lorange, 1988; Contractor, 1986). In recent studies, learning and knowledge acquisition as the primary motive behind joint ventures have been emphasized (Inkpen, 2000; Inkpen, 2002) as well as identity adaptation/formation (Lerpold, 2003) and market consolidation (Glaister & Buckley, 1996). To summarize, companies establish a joint venture in order to:

*Reduce risk:* Risk sharing is the classical explanation for joint venture establishment. The opinion that joint ventures should be used in order to reduce risk is often emphasized in strategic literature. Contractor and Lorange (1988) specify four ways that strategic alliances can be used in order to reduce risk through (Contractor, 1986; Contractor & Lorange, 1988):

1. Sharing a risky project with another company
2. Enabling product portfolio diversification
3. Making faster market entry and payback possible
4. Lowering the total cost of the project through the combination of expertise from the partners

Risk sharing is especially important for companies operating in a highly globalized environment such as the automotive industry (Internal documentation: “China Market Report” by Å. Käfling) and the telecom industry (Käfling, 2003). One example of this is the establishment of *Sony Ericsson* (for research and development of mobile phones), in which the main motives for cooperation was risk sharing through enabling product portfolio diversification, faster market entry

and cost reduction through the combination of partner strengths,. Another motive was the desire to create a new type of corporate identity in order to be better suited to cope with the challenges of the globalized environment of converging markets, specialization, shorter product life cycles and higher demand on compatibility (Käfling, 2003).

*Economies of scale:* Economies of scale and scope are typical motives behind establishment of strategic alliances (Bengtsson et al., 1998). According to Contractor (1986), lower costs can be achieved either through a lower average cost, as a result of larger volumes, or through using the partners comparative advantage thus creating a lower cost base. For smaller companies wanting to achieve rapid internationalization, the issue of poor access to economies of scale has been one of the most important constraints. Here collaborative partnerships, created through establishing joint ventures with suppliers have proved to be successful for reaching economies of scale. In the same way, strategic alliances with large, growth oriented partners are used in order to promote international sales and achieve economies of scale. (Freeman et al., 2006)

Economies of scale are also one of the most popular motives behind industry consolidation (Trautwein, 1990) and the most common motive given by managers as to why they engage in mergers (Ingham et al., 1992).

*Share costs for technologies and patents:* To share costs and risks related to research and development are important motives behind joint ventures, especially in the aircraft, telecommunication and pharmaceutical industry where the capital requirements are very high, and rising (Mowery et al., 1996). The trend of rising costs for development projects in the above mentioned industries is partly explained by the shortening product life cycles, something that is especially evident in the globalized telecom industry (Käfling, 2003). Joint ventures and other forms of CTOs (cooperative technological organizations) are important means of promoting the technological development in a direction that favors the capabilities of the company in question (Rosenkopf et al., 2001).

*Block competition:* Joint ventures are sometimes used in order to block competition. This can be done through agreements that aim to reduce competition through cooperation between competitors about prices, production restrictions and the dividing of customer groups and/or markets between companies (EU, 2001). Thus, joint ventures can be used offensively, if a company forms a joint venture with a competitor in order to put pressure on a third party in order to reduce its market share and profit; or defensively, such as when the joint venture is formed in order defend a current strategic position (Contractor & Lorange, 1988). Joint ventures that can be used in order to block competition are usually prohibited by competition authorities, even though exceptions exist (especially for the alliances in the aircraft industry).

*Overcome government legislation:* In many countries, especially in LDCs (less developed countries) joint ventures are used as a means to achieve market access, since the legislation prohibits other forms of investments such as wholly foreign owned enterprises. It is in particular countries in the former Soviet union, communist regimes such as China (Child, 1994), and countries with a planning economic background such as India (Ribeiro, 2006) that wholly owned foreign enterprises have been prohibited in many industries. Furthermore Boateng and Glaister (2003) show that overcoming government-mandated barriers is even the primary motive for Western European, North American and Asian companies establishing joint ventures in Ghana together with local partners (Boateng & Glaister, 2003).

However, there are government-mandated investments barriers in certain sectors in developed countries. This is especially the case when it comes to weapons system and the military industry (Mariti & Smiley, 1983).

*Internationalize:* Joint ventures can be used as means for internationalization, especially for those companies that have no prior experience of a market. For these companies, joint ventures become a first step in a long term market involvement. Fahy et al. (1998) for example have shown that joint ventures between British and Hungarian companies in the Hungarian market are formed in order to enable rapid market penetration and establish a strong position in the market (Fahy et al., 1998). Similar findings have been presented, that companies with limited financial resources use joint ventures in order to achieve early and rapid internationalization (Freeman et al., 2006). Empirical studies further show that “*Alliances are seen primarily as means of gaining a significant presence in a new market, enabling faster entry and achieving greater international market penetration.*” (Glaister and Buckley 1993; p328) for British companies that form joint ventures with partners from Western Europe, the USA and Japan.

*Integrate vertically:* Joint ventures can be used in order to integrate vertically, as well as horizontally. When vertical integration is the motive behind the establishment of the joint venture a partner wants to achieve different and complementary resources. Examples of inputs that companies can achieve from joint ventures are (Contractor & Lorange, 1988):

- Access to material, technology, labor or capital
- Regulatory permits and licenses
- Access to distribution networks
- Brand recognition
- Links with potential major buyers
- Advantages from existing market establishments

*Achieve learning and knowledge acquisition:* The joint venture form is seen by many companies, especially those operating in joint ventures in the USA, Europe

and Japan, as a means for knowledge acquisition (Makhija & Ganesh, 1997) and empirical studies show that knowledge acquisition (Lyles & Salk, 1996) and/or knowledge creation (Inkpen & Dinur, 1998) take place in joint ventures. For many companies the opportunities for learning and knowledge acquisition is even the primary motive for engaging in joint ventures. Joint ventures that are formed in order to acquire industry related capabilities, or adjust to rapid environmental changes, tend to be divested when the organizations have achieved their required objectives (Makhija & Ganesh, 1997).

Also for joint venture partners in LDCs, knowledge acquisition and learning are primary motives for cooperation, which hold true also historically. Högberg and Wahlbin (1984) have shown that of the 53 cases of their study of industrial cooperation between Swedish and East European companies, nine out of ten involved a flow of technology from the western partner to the eastern partner(s).

*Identity formation and/or adaptation:* Identity formation and adaptation have proved to motives for forming of joint ventures. Lerpold (2003) for example has shown that the alliance between British Petroleum (BP) and Statoil partly was motivated by the desire to achieve organization identity adaptation. Companies may therefore cooperate in joint ventures in order to build up a reputation through the association with another firm. Similar findings have been found in the joint venture between Sony and Ericsson where the proclaimed aim of the joint venture was to create a new identity (Käfling, 2003). Identify formation and adaptation as motives behind joint venture establishment have nevertheless received little attention in the traditional joint venture literature (Lerpold, 2003).

*Consolidate market position:* From a strategic point of view, the motive behind a joint venture can be a wish to consolidate a market (Glaister & Buckley, 1996). This is holds especially true for the aircraft industry where alliances have been used for a long period of time in order to consolidate companies' current market positions.

However, for joint ventures in China, the situation, and the motives behind the establishment of alliances differs in some important respects from international joint ventures.

#### **4.2.2 Motives behind foreign companies entering into joint ventures in China**

The Chinese situation is different to many developed countries since the establishment of a joint venture is required when investing in strategic industries. As a result, the strategic motivation behind the joint venture tends to differ between the partners. Motives behind Sino-foreign joint ventures are often divided into the motives of the foreign partner vs. the motives of the Chinese partner.

### **Motives behind foreign partner JV establishment**

There are several similarities between the motivation behind the establishment of international joint ventures and the foreign partner's strategic goals in Sino-foreign joint ventures. Usually the motives behind the foreign partner's joint venture establishment is the wish for *market access* and securing a *resource base* for production that cannot be found elsewhere under the same favorable conditions (Child, 1994).

*Market share:* Traditionally the most common goal for foreign partners in Sino-foreign joint ventures has been to gain market access (Child, 1994). Market related objectives can be the desire to expand through getting a larger market share or to achieve market penetration (Yan & Gray, 1994). The motives behind the market access goal are often a consequence of avoiding the protectionist barriers of the P.R.C as well as the aim to expand into new markets and getting a first mover advantage, in relation to competitors (Child, 1994).

*Profit:* To provide an opportunity for long-term profit is also one of the most common goals among the foreign partners in Sino-foreign joint ventures (Child & Yan, 2003; Yan & Gray, 1994).

*Knowledge and learning:* For foreign companies that engage in joint ventures in China a common goal with a joint venture is to acquire knowledge and learning, primarily about the Chinese market. In addition to obtaining knowledge about the Chinese market and culture the possibility of gaining insight into Chinese governmental and legal issues as well as the political system are important goals (Si & Bruton, 1999).

*Low labor costs:* To achieve low labor cost has traditionally been a popular goal for foreign Sino-foreign joint venture partners (Child, 1994; Child & Yan, 2003); something which holds especially true for western companies that have chosen to outsource labor intensive production to China. At the beginning of the economic reforms in China this motive behind foreign direct investment was in general the most popular and attracted many companies in export oriented and labor intensive industries (Lardy, 1995; Park & Lee, 2003).

*Local Sourcing:* The potential of local sourcing in China is a most recent goal of foreign joint venture partners. Foreign companies, establishing joint ventures in China, often want to secure a resource base for production as this is usually not as favorable in other markets (Child, 1994). This can be done by gaining access to cheaper material or distribution in addition to cheaper labor and to realizing tax incentives from the Chinese state (Child, 1994).

### **Motives behind Chinese partner JV establishment**

As yet, few studies into the goals and objectives of the Chinese partners of Sino-foreign joint ventures exist. As Yan and Gray (1994) note: “*most joint venture research on developing countries adopts the perspective of the multinational partner and excludes the views of the developing country partner*” (Yan and Gray 1994; p1479); which has led to the fact that even fewer studies exist with a focus on the motivation for Chinese partners in Sino-foreign joint ventures. One way to understand the motivation of Chinese joint venture partners is instead to study the Chinese legislation on joint venture issues (Child, 1994).

Since all joint ventures must be approved by the Ministry of Commerce (MOFCOM) in China, and since most Chinese joint venture partners are state owned (so called SOEs) or provincially owned, the motivation behind Chinese companies’ establishment of joint ventures tend to conform with the motives expressed in Chinese law. According to the law, Sino-foreign joint ventures should comply with the following requirements:

*“(1) They shall adopt advanced technical equipment and scientific management which shall enable the increase of the variety of products, the rising of quality and output and the saving of energy and materials:*

*(2) They shall provide benefits in terms of technical renovation of enterprises and result in less investment, quicker returns and bigger profits;*

*(3) They shall enable the expanded production of products for export and result in increasing income in foreign currency;*

*(4) They shall enable the training of technical and managerial personnel.”* (Regulations for the Implementation of the Law of the People’s Republic of China on Joint Ventures Using Chinese and Foreign Investment<sup>38</sup> 1983; Article 4)

*Adoption of technical equipment and scientific management:* To achieve technical and scientific management is usually a main goal of the joint venture, from the point of view of the Chinese partner. In the four comprehensive case studies of United States-Chinese joint ventures of Yan and Gray (1994) adoption of technological development was an important goal for all four Chinese partners. The objectives that the four Chinese partners expressed were: to develop technology and management, manufacture technology and upgrade suppliers’ technology, to get technology growth and finally technology gain (Yan & Gray, 1994). Other studies of Sino-foreign joint ventures also emphasize the importance of the adoption of technology as a main goal for Chinese partners (Fang, 1999).

*Return on investment and larger profits:* Many Chinese SOEs have serious financial problems and have to be restructured (Cauley & Sandler, 2001). For

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<sup>38</sup>In Chinese “中华人民共和国中外合资经营企业法实施条例”



many Chinese state-owned enterprises, the possibility of establishing a joint venture with a western company has become the last chance to catch the straw that has the potential to save them from bankruptcy. According to Yan and Gray (1994), profit and business expansion was the main objectives for two of the Chinese partners in their study.

*Expand Export:* To expand export possibilities is also one of the most important goals for Chinese joint venture partners. Stewart and Keown (1989) have even shown that the main reason for negotiation failures between western and Chinese firms has traditionally been “lack of foreign exchange”. According to the findings in Yan and Gray (1994) export possibilities and possibility to get foreign currency were also shown to be important goals. Two of their four companies stated that export in order to get foreign exchange as one of their main objectives.

*Training of technical and managerial personnel:* Chinese joint venture partners want to learn more about new technologies, new managerial styles and how to manage capital in an efficient way (Si & Bruton, 1999) in addition to adopting technological equipment and management skills. To gain management expertise was a main objective for two of the four companies of the Yan and Gray (1994) study.

#### **4.2.3 Summary of motives, goals and objectives in joint ventures**

To summarize, the *motives* behind joint ventures differ among the companies from the developed and the developing world. Motives behind joint ventures between companies from developed countries could be the will to share investment risks and achieve economies of scale. Developed country companies establishing joint ventures together with partner or partners from less developed countries are instead interested in overcoming trade and/or governmental barriers in order to access local markets and to integrate vertically (Contractor & Lorange, 1988; Contractor, 1986).

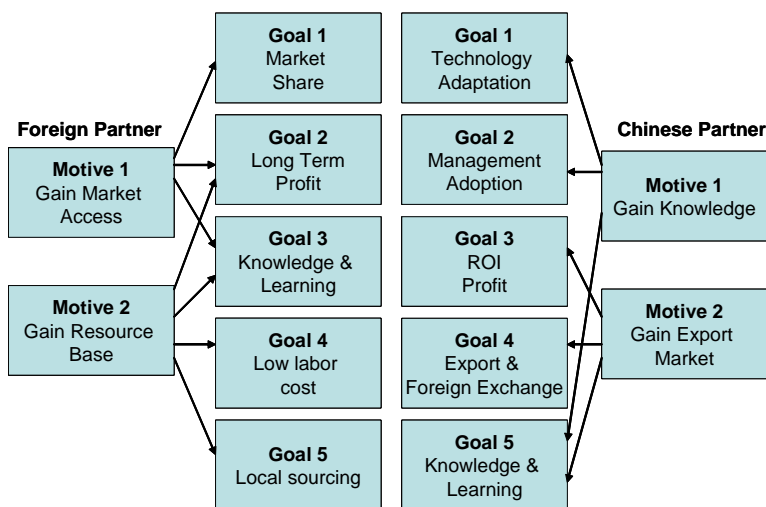


Figure 9: Main motives and goals behind Sino-foreign joint ventures

The *motives and goals* of joint ventures established in China are different from joint ventures between developed country partners in the way that there are often differences in motives and goals between the foreign and the domestic partner. The main goals for multinational companies engaging in Sino-foreign joint ventures are to get access to the Chinese market, get the possibility of a good long term profit, to achieve knowledge and learning (of the Chinese market, culture, legislation and governmental issues), to obtain cheap labor and to get local sourcing. Chinese companies instead desire to gain technological knowledge, as well as western managerial skills, return on investment, export possibilities (which will result in foreign currency) and knowledge and learning (about new technologies and managerial issues), through the partnership.

### 4.3 Partner Selection in Joint Ventures

Partner relations and partner selection criteria have been given much attention especially during the 80s and 90s. This is especially the case for joint venture partnering in LDCs in general and Sino-foreign joint ventures in particular.

#### 4.3.1 Partner selection in international joint ventures

The first attempts to summarize the factors influencing partner selection in international joint ventures were undertaken in the late 80s. Harrigan (1985) emphasis the importance of strategic fit, constituted by complementary goals, resources and management capabilities between the partners (Harrigan, 1985).

Geringer (1988; 1991) acknowledges the importance of strategic fit; but concludes that prior research has had “limited success” in identifying criteria for joint venture partner selection. He distinguishes between *task related* and *partner related selection criteria*, as tools to understand the selection process. Task related selection criteria are defined as the general resources and skills organizations need for their operations. Partner related selection criteria are defined as those unique to multi partner organizations (Geringer, 1988; Geringer, 1991).

Geringer (1991) further argues that the parent managers must analyze the current situation, as well as the future, when taking partner selection decisions. In order to succeed with the selection process, a company must be aware of its own capabilities and determine if the parents together possess the necessary capabilities for the joint venture to succeed. He concludes that partner selection is an important issue that has received little attention from the joint venture literature (Geringer, 1991).

As a response to Geringer (1991), a study of joint ventures in Britain was conducted by Glaister and Buckley in 1997. They aimed to use his framework and replicate his study in a different context. Their result is however more specific than Geringer’s since they attempted to identify the most important task- and partner related selection criteria.

### **Task related selection criteria**

Buckley and Glaister (2002) emphasize that in order to reach strategic objectives, the partners of a joint venture should have complementary capabilities and compatible strategies. In addition, the partners should not be potential competitors and the partnership should have value with regard to competitors (Buckley & Glaister, 2002).

Among the task related selection criteria Glaister et al (1997) classify *knowledge about the local market*, *distribution channels*, *links with major buyers*, and *knowledge about the local culture* as the most important criteria.

#### *Knowledge*

In a joint venture, knowledge can be achieved through technology transfer or sharing, interaction between the parents, transfer of personnel between the parent company and the joint venture, and the integration of joint venture strategy and parent company strategy (Inkpen & Dinur, 1998). Another type of important knowledge that companies achieve by working in strategic alliances is the experience from the actual business deal. The advantages bought by this experience are more obvious in cases where the company returns to a specific country, or to a specific cultural context, to do similar business again (Barkema,

1996). Knowledge as a task related partner selection criteria is closely connected with the partner selection criteria of learning and many of the joint venture studies use the terms more or less synonymously.

### *Resourcing*

In conformity with Glaister et al (1997), Child and Yan (2003) find that in addition to learning, *resourcing* is an important firm level partner selection criterion if an JV is to be successful (Child & Yan, 2003). Even though joint venture articles based on a resource based view of the firm exist (for a summary see Das & Teng, (2000)), and resource based arguments are often used as an explanation to why companies choose to cooperate in strategic alliances (Lerpold, 2003), few articles investigate the importance of resourcing *per se* (Child & Yan, 2003).

### **Partner related selection criteria**

As joint ventures are dependent on the cooperation between the partners as well as on that between the partners and the joint venture management (Luo, 2002; Luo & Park, 2004) *trust* and *learning* are partner selection criteria that have been found to be essential for performance (Hyder & Abraha, 2004). Other significant partner related factors are *relatedness*, *good reputation* and *financial situation* (Glaister & Buckley, 1997)<sup>39</sup> of the partners as well as the *partner companies size* (Glaister et al., 2005).

### *Trust*

In several joint venture studies, *trust* has been found to be the most significant partner related factor (Glaister & Buckley, 1997; Glaister et al., 2005) for the selection of a partner to be successful. It has also been shown that misunderstandings and distrust can lead to the termination of joint ventures, previously considered to be very successful (Hyder & Eriksson, 2005).

Trust in a joint venture can be understood as the perceived likelihood that a partner would not behave in a self-interested way (Madhok, 1995) on the expense at the other partner(s). Traditionally trust has been divided into three types (Parkhe, 1998). These are *process-based*, *characteristic-based* and *institutional-based trust* (Zucker, 1986).

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<sup>39</sup> The Glaister and Buckley (1997) study, which was a replica of the Geringer study was heavily criticized, mostly by Geringer himself. In a reply Geringer writes that the results “*are subject to low reliability, questionable validity, non-equivalent measures, and related concerns*” (Geringer 1998; p125). The low response rate, 24 %, and the fact that other non related material later became added to their study rendered this very unfavorable review.

*Process-based trust* consists of an expectation of a predictable behavior, based on past experience. To get a trustful relationship, it is vital not to take actions that are damaging to the partner, and to give the partner positive experience (Parkhe, 1998). In order to build process based trust in a joint venture, it is also important never to cheat a partner, but it is equally important to take actions against a cheating partner.

*Characteristic-based trust* is based on the attributes on the partner, i.e. the societal and/or the corporate culture. If the partners' cultures are similar, it is easier for the partners to understand the others' ways of thinking and acting. Consequently, building trust between partners with very large cultural differences implies large investments in time and effort (Parkhe, 1998).

*Institutional-based trust* is trust based on formal mechanisms. If the partner lacks information about the partner (leading to lack of process-based trust) and lacks knowledge about the partner's culture (leading to a lack of characteristic-based trust) it will still have the possibility to build institutional-based trust. That can be done through intermediary mechanisms or by providing guarantees (Zucker, 1986). Joint ventures can be structured in a way that makes cooperation worthwhile such as through reducing the attractiveness to cheat, enhancing the cost of cheating and/or increasing the gains of cooperation. Another way is to trust an independent outsider to certify that a company meets the standards of a certain industry.

### *Learning*

*Learning* is another partner related criterion that has been found to be significant for successful joint venture partner selection in the international joint venture literature (see for example Inkpen, 2000). This holds especially true for partners whose primary motive for the joint venture is learning and knowledge acquisition. Hamel (1991) writes "*A partner that understands the link between inter-partner learning, bargain power, and competitiveness will tend to view the alliance as a race to learn.*" (Hamel 1991; p87)

According to Hamel (1991) there are when selecting a partner, some core propositions that must be taken into account from a learning point of view. Firstly the competitive situation of the partners must be analyzed. If the partners are in the same industry, they might even be competitors. Secondly, the learning and bargain power of the partners is important.

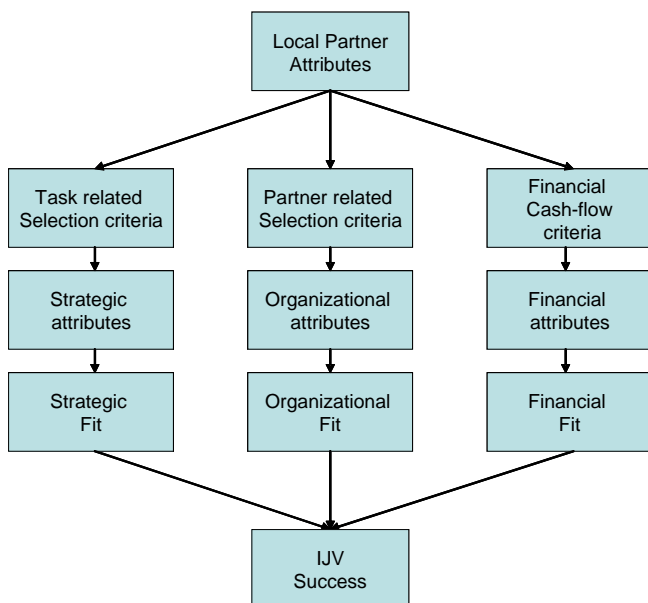
How partners demonstrate their intent to learn in form of resource concentration, internationalization or substitution, are also important determinants for knowledge acquisition (Hamel, 1991). Transparency and receptivity are prerequisites for learning that could be influenced through organizational design (Hamel, 1991). In

order to succeed with learning, commitments on the part of the partners is also essential since successful learning requires high partner commitment. This, in turn, is a consequence of adjustment of learning requirements, heightened expectations and decreased or stable suspicion of the partner (Doz, 1996).

#### 4.3.2 Partner selection in joint ventures in China

Findings from studies of Sino-foreign joint ventures show that the same characteristics that are needed for IJV partnering performance are also essential for joint ventures operating in China. The largest difference is that the financial characteristics of the local partner play an even more important role in Sino-foreign joint ventures. This makes Luo (1998) place *Financial Selection Criteria* into a separate category, instead of defining it as a partner selection criteria (c.f. Glaister & Buckley, 1997). In addition the political attributes of the domestic partner are important issues to consider in the partner selection process for the foreign partner of a joint venture in China.

To summarize, it is the *strategic, organizational and financial fit* of the domestic and foreign partner that give joint venture satisfaction in Sino-foreign joint ventures.



**Figure 10: Chinese Partner Attributes and Joint Venture Success Model**

Source: Modified from Luo (1998)

*Strategic Fit* depends on the partner's strategic attributes as these are essential in order for the joint venture to achieve its strategic goals. According to Luo (1998) examples of important strategic attributes are marketing competence, experience of relationship building, market position, industrial experience, strategic orientation and corporate image (Luo, 1998).

*Organizational Fit* is decided by the partner related criteria and organizational attributes. Important organizational attributes are: leadership, organizational rank, ownership type, learning ability, foreign experience and human resource skills (Luo, 1998). These organizational attributes can be divided into two categories classified as "political" and "corporate cultural".

Political partner related attributes are the attributes of leadership, organizational rank, and ownership type which all refer to the political position of the Chinese partner. Leadership is a political issue since the relationship with political leaders often is more important than the formal agreements of the joint venture. Organizational rank is the classification a partner organization has and Chinese companies for example are often national or provincial companies. The higher rank a company has the greater attention it receives from the government. Ownership type refers to whether the company is collective or private owned. State-owned enterprises (SOEs) have certain advantages over privately owned ones.

Corporate cultural partner related attributes consists of: experience from foreign operations, which has been shown to promote trust and relatedness, learning ability, which has been shown to promote strategic goal achievement, and Human Resource Management, which has also been shown to promote goal achievement.

*Financial Fit* summarizes the financial situation of the company and means the company's profitability, liquidity, leverage and asset efficiency (Luo, 1998). Since many Chinese SOE's have financial difficulties, this issue is of great importance.

Task related selection criteria		Partner related selection criteria (general)	
<i>Complementary capabilities</i>	Important attributes depend on complementary of capabilities	<i>Trust between partners' management teams</i>	Local parents' international experience promotes trust.
<i>Compatible strategies</i>	Important attributes depend on desired strategy	<i>Relatedness of partner's business</i>	
Partner related selection criteria (corporate culture)		Partner related selection criteria (political)	
<i>Foreign experience</i>	Promotes trust and relatedness	<i>Political position</i>	-Organizational leadership -Organizational rank -Ownership type
<i>Learning ability</i>	Promotes joint venture success	Partner related selection criteria (financial)	
<i>Human Resource Management</i>	Promotes joint venture success	<i>Financial position</i>	-Profitability -Liquidity -Leverage -Asset Efficiency

**Table 1: Summary of important criteria, promoting perceived performance, for partner selection and evaluation for joint ventures in China**

#### 4.3.3 Summary of partner selection criteria in joint ventures

When summarizing the findings from the research field of Sino-foreign partner selection, the important characteristics of partner selection and evaluation can be grouped into the two broad categories of task related characteristics and partner related characteristics.

Firstly the *task related characteristics* of the partners in the joint venture should be analyzed. These include the *complementary of capabilities*, as well as the *complementary of the joint venture partners' strategies*.

Secondly the *partner related characteristics* of the partners in the joint venture should be thoroughly investigated. In accordance with findings from studies of international joint ventures, issues like *trust*, *learning* and *resourcing* are important. In addition, the foreign partner in a joint venture should analyze the corporate cultural, political and financial criteria of the prospective domestic partner.



## 4.4 Control in Joint Ventures

Control is of special importance in a joint venture context since control can be defined as the process of protecting a party's rights (Calantone & Zhao, 2000), and in a joint venture there are at least two different companies that want to protect their rights. According to Geringer and Herbert (1989), control in joint ventures refers to the process by which to a varying degree one party influences the behavior and output of another party; through the use of power, authority and a wide range of bureaucratic, cultural and information mechanisms (Geringer & Herbert, 1989). Thus the joint venture setting, with independent partners that want to achieve their respective strategic goals and objectives, creates a source of conflict and opportunism (Parkhe, 1993).

### 4.4.1 Control in international joint ventures

The first studies of control in joint ventures were concerned with how control are related to financial outcome, e. g. return on investment (Tomlinson, 1970) and stability, e. g. changes in ownership of a joint venture (Franko, 1971). These pioneer works broke new grounds within the joint venture field, but the authors neither defined control nor did they explain how control can be measured. The first studies about control and joint ventures, of real influence, were conducted in the mid 1980s. Killing (1983), Schaan (1983), Geringer (1989) all are examples of important studies into control in international joint ventures.

In Geringer et al (1989) the findings from these earlier studies on how to control IJVs are summarized into an integrative model. Three dimensions of control are defined: control as a *mechanism*, *extent* of control and control *focus* (or scope of control). These three dimensions reflect different aspects of control.

### Control mechanisms

Studies of control as a mechanism, instead of control as a result of a governance structure, focus on how control is exercised. Examples of control mechanisms are the: right to veto a decision, representation in management, and special agreements when it comes to technology and/or management (Geringer & Herbert, 1989).

Schaan (1983)<sup>40</sup> identifies three types of controlling activity that a joint venture parents can use: formal agreements, staffing and influence techniques.

The *formal agreements* of a joint venture are constituted by the legal foundation of the company. These are typically closely related to control issues; e. g. the joint venture business scope, how the board should be composed and the nature of the

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<sup>40</sup> The findings from Schaan (1983) is summarized in Killing (1983)

decisions taken by the board of the joint venture. The formal agreements also regulate the percentages of votes that is needed for a decision to be approved, and which decisions must be unanimously approved. In addition to the basic contracts there are other control related documents, namely marketing and sourcing agreements, as well as products design and process agreements. Often, from the foreign parent's point of view, these agreements are tied to financial control, through their focus on transfer prices and royalty fees. According to Killing agreements that regulate the rights of local parent often involve issues like accounting, computer time and legal work.

*Staffing* was an important tool for control in the sample. The findings from the Mexican joint ventures described in Schaan (1983) showed that when wanting to achieve control it was an advantage to be able to staff the joint venture, both from a communications as well as from an allegiance point of view.

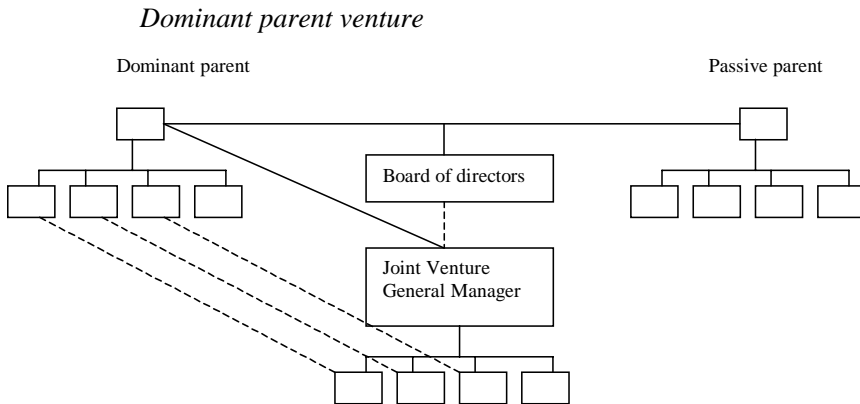
Finally situation was identified where a parent company was able to influence the management of the joint venture, even though lacking the formal means of control, through *influencing techniques*. Examples of influencing techniques are strategy reviews, the use of specific request forms, progress reports and in-house training.

According to Schaan (1983), control activities can be divided into two groups, positive control and negative control. *Positive control* consists of techniques that are used by a parent in order to encourage rather than constrain a joint venture to take certain decisions, and is an ongoing process, often facilitated by influence techniques or staffing procedures. *Negative control* is instead the ability to prevent certain actions, and is an act of raw power from one of the partners, facilitated by the formal agreements of the joint venture. The authors conclude that an inexperienced parent usually focuses too much on the negative aspects of control; something that would not had been needed if positive control functions had been utilized appropriately.

### **Extent of control – control tightness**

The extent of control derives from the extent to which the partners implement control, instead of equity share. The extent of control is closely related to a joint venture partner's influence on the joint venture management, and whether the joint venture is a dominant, shared, independent or split joint venture, is decided by the parent's extent of control.

In Killing (1983) *dominant parent ventures*, *shared management ventures* and *independent joint ventures* are defined as three distinct types of joint ventures. In all these control is exercised through the governance structure.

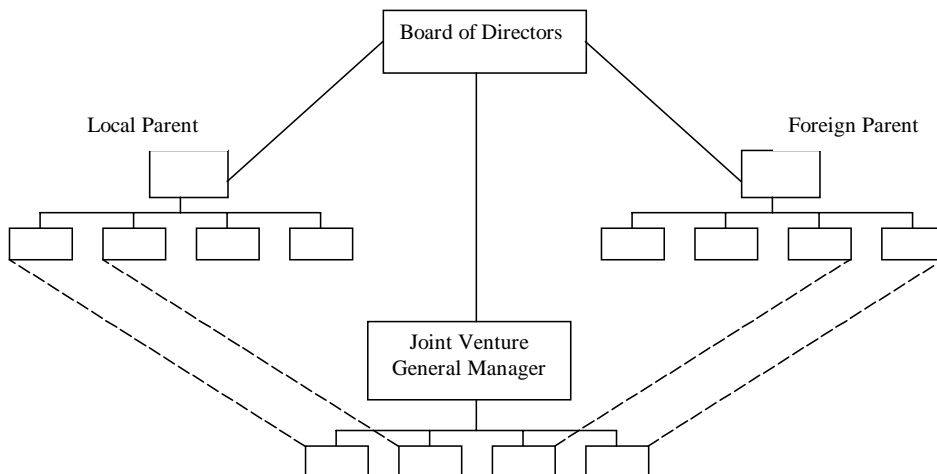


**Figure 11: The Dominant parent joint venture** *Source: Killing (1983)*

In a dominant parent venture, see *Figure 11*, one partner takes an active part in the management of the joint venture, while the other is passive. The joint venture board of directors, chosen by both partners according to their equity share, has little authority. Instead, the dominant partner empowers its own managers (that could, but does not have to, be localized to the joint venture) to take decisions on all strategic and operational issues. Typically, the dominant joint venture partner staffs all the functional managers in the joint venture, such as finance, manufacturing, and marketing. The general manager of the joint venture reports to a representative from the dominant partner or to a senior product group manager instead of acting as the chief executive officer. As a result, a dominant parent joint venture is run very similarly to one run as a wholly owned enterprise. A dominant partner in a dominant partner joint venture can have, but does not have to have, a majority stake in the joint venture. That the partners own an equal part of the joint venture (e.g. a 50-50 deal) is also common.

#### *Shared management venture*

In a shared management venture both (or all) partners take an active part in the management of the joint venture. The General Manager of the joint venture reports generally to the board of directors, a board that consequently has more authority. In addition the General Manager addresses and cooperates with each of the partners separately. Since the functional managers come from both (all) partners the relationship is also tighter between the management team of the joint venture and the different partners. As *Figure 12* indicates, the formal way of reporting, namely from the General Manager to the executive team and/or the board of directors of the joint venture, is supplemented with the more informal relationship between the functional managers and the joint venture partners. A joint venture can be categorized as shared, even though the parents do not have equal ownership of the venture.



**Figure 12: The Shared management joint venture** *Source: Killing (1983)*

### *Independent venture*

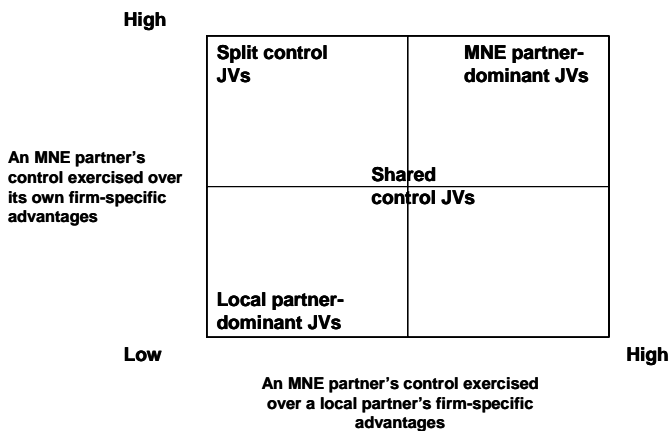
Finally Killing (1983) lists a third type of joint venture, the independent venture. Since very few of the joint ventures in his sample were to be classified as such he writes little about them. An independent venture is a joint venture with little interference from its parent organizations. The general manager views the joint venture as an independent company and the relationship to the owners are mainly financial. (Killing, 1983) The independent joint ventures in the sample were all examples of successful joint ventures. The background Killing argues seems to be that autonomy is both the result, as well as the facilitator of this success.

Killing's empirical studies show that a dominant partner joint ventures is more likely to succeed<sup>41</sup>, since it is easier to manage than the other forms of co-operation. The root of the problems, Killing argues, is that a joint venture has more than one parent. The more a joint venture could be run as this was not the case the easier it would be to manage.

<sup>41</sup> Killing (1983) calculates joint venture performance using two measures: the first is the manager's perception of performance and the second is his own measure which is based on whether the joint venture was liquidated or had a major reconstruction or not. This makes his study of joint venture performance one of the first to use subjective measures on performance

### *Split management venture*

Using the framework presented by Schaan (1983), Choi and Beamish (2004) discuss a new joint venture control category in order to solve the long standing debate about whether foreign dominant partner ventures are more successful than shared management ventures. They suggest that *split control ventures* should be added as an alternative to dominant partner ventures, shared management ventures and independent joint ventures.



**Figure 13: Four ways of partitioning control between JV partners**  
 Source: Modified model, adapted from Choi and Beamish (2004)

Split control ventures are joint ventures where the partners agree to control specific activities. In this way, split control ventures are different from shared management ventures where all control over activities are shared between the partners. In split control joint ventures, the partners instead exercise control over the activities that correspond to their respective contributed resources which mean that the partner that has the resources that is needed in order to perform a particular activity should also control these activities in the joint venture.

The findings of Choi and Beamish (2004), based on empirical studies of international joint ventures in Korea, show that managers are more satisfied with the performance of split control joint ventures than of shared management ventures or dominant parent joint ventures. Whether shared management ventures performed better or worse than dominant parent joint ventures was not indicated.

### **Scope of control – control focus**

The scope of control defines the area in the joint venture operations that control is exercised (Geringer & Herbert, 1989). Control can be exercised over resources

(Hyder, 1988), activities, output and relationships (Kamminga & Van der Meer-Kooistra, 2007).

### *Resources*

According to Hyder (1988), it is the exchange of resources, control and the level of cooperation and conflict between the partners that determine how an international joint venture will develop over time. Five main groups of critical resources for joint ventures can be identified: input material, capital, manpower, technology and market.

Usually *input material* is provided by the domestic parent. That is a result of the local parent usually is more familiar with the local supplier network as well as the market in general. If the material that is required is not easy to access in the local market and/or if the material is technologically advanced, the foreign partner can assist the joint venture with for example procurement and development of sourcing networks instead (Hyder, 1988).

*Capital* is another important resource that is closely related to formal control and the equity division in the joint venture. The division of equity in the joint venture is settled in the joint venture contract, and is often influenced by legislation connected to level of foreign ownership, especially in LDC-countries.

When it comes to *manpower*, this resource can be divided into two groups according to the skills of the employees. Often, the foreign partner supplies the joint venture with senior management as well as with highly technically skilled employees, while the local partner provides the joint venture with blue collar workers. The challenges of managing employees in international joint ventures are often related to the differences between the different employee groups of the joint ventures and differences in personnel practices resulting from parent characteristics between the partners (Zeira & Shenkar, 1990). Another challenge is to balance globally applied human resource practises with local responsiveness (Björkman & Lu, 1999).

*Technology*, especially in joint ventures in LDCs, technology in the form of technologically advanced equipment as well as technological knowledge and skills is provided by the foreign partner. The issue of providing the joint venture with technological resources is often of vital importance for the relationship between the parents in developing country joint ventures. This holds especially true when the goal of a joint venture partner is viewed to gain critical and confidential know-how at the other partner's expense (Zeira & Shenkar, 1990).

### *Activities, output and relationships*

Control can also be exercised over a whole range of activities, which are related to own contribution of resources, output and relationships (Kamminga & Van der Meer-Kooistra, 2007).

A joint venture parent may want to control the *whole range* of joint venture activities. This holds especially true for a joint venture in which all the crucial assets and skills are provided by the parent(s) and where the output is easy to evaluate (Kamminga & Van der Meer-Kooistra, 2006). The joint ventures where the joint venture parent wants to control the whole range of joint venture activities are typically dominant parent joint ventures or shared management ventures, using the Killing (1983) typology.

Another alternative for a joint venture partner is to seek control over activities which are related to the *contribution of resources* to the partner. If the domestic parent is responsible for providing the joint venture with input material, it will naturally control this activity (Hyder, 1988). The same applies in the situation where a partner contributes with financial capital, and no other resources. Here the other partner will have to rely on the partner who makes the contribution (Kamminga & Van der Meer-Kooistra, 2006) when it comes to financial control issues, provided sufficient trust. In order to control the manpower of a joint venture, control mechanisms like: recruitment and staffing, training and development, and performance appraisals, as well as compensations and reward strategies can be used (Geringer & Frayne, 1990). If a partner instead contributes with technological equipment and/or knowledge, this partner will usually try to make sure that the technology will not be used in a way that will hurt the parent organization. Conflicts about control of technology are common in joint ventures, since technology is so closely related to many companies' competitive advantage (Makhija & Ganesh, 1997).

### *Output*

In order to control the joint venture output, both content and context based control mechanism can be used. There are surprisingly very few studies of how to control the results of joint ventures within the joint venture field. Studies of control and joint venture outcome have instead tended to emphasize the factors which may influence joint venture performance. Joint venture performance studies often describe how performance correlates with joint venture and/or partner characteristics. To the best of my knowledge, no studies of JV performance which take their point of departure in the strategic goals of the partners (and/or other stakeholders) and describe how they were achieved have been made.

Groot and Merchant (2000) give a three-step proposal which is that performance targets should be set and monitored, that the partner(s) should intervene when

necessary and that rewards should be provided for good performance (Groot & Merchant, 2000).

### *Relationships*

According to Kamminga and Van der Meer-Kooistra (2006), it is reasonable to assume that a joint venture partner would have to rely on the relationship when the joint venture is characterized by a high uncertainty and when the information asymmetry between the joint ventures and the partners is high and to measure the joint venture performance is complicated. This implies that the level of trust between the parents and the joint venture is essential (Kamminga & Van der Meer-Kooistra, 2006; Kamminga & Van der Meer-Kooistra, 2007). However, here too very little research has been conducted. Even though the empirical studies of control of relationships in joint ventures are very few, support for the hypotheses of Kamminga and Van der Meer-Kooistra (2006) can be found in other theoretical frameworks. The foundation of the need for controlling the relationships is expressed in much the same way (Ouchi, 1980) in the field of organizational theory:

*“Common values and beliefs provide the harmony of interest that erase the possibility of opportunistic behaviour. If all members of the organization have been exposed to an apprenticeship or other socialization period, then they will share personal goals that are compatible with the goals of the organization. In this condition, auditing of performance is unnecessary except for educational purposes, since no member will attempt to depart from organizational goals.” (Ouchi 1980; p138)*

#### **4.4.2 Control in Sino-foreign joint ventures**

The issue of control has been a common theme in the Sino-foreign joint venture research field. This results from the great differences among JV researchers in opinion about which control strategies is the most efficient.

The first qualitative study with any influence within the joint venture field was that of Yan and Gray (1994) where power, management control and performance are considered together. The outcome of their case studies of four joint ventures in China, gave several interesting findings. Firstly, their findings supported the view that equity share not is the same as management control. In all four of the joint ventures in their empirical study, the equity division had been voluntarily decided between the partners. Their findings further supported the view that a shared management structure is beneficial in developing countries. They could not however, see that performance was negatively influenced by foreign dominance. In the conclusions of their article, a question about the importance of the Chinese characteristics of the joint ventures they studied is voiced. As authors before had



already noted (Beamish, 1985) the motives between the foreign and the Chinese partners were not the same. (Yan & Gray, 1994) This remark was a mere observation, as they did not make any deeper attempt to investigate the relationship between goal incongruence and control.

Other findings in line with those of Beamish (1985) and Yan and Gray (1994) are found in Lin et al (1998). This study also rejects Killing's (1983) statement that joint venture success is a result of dominant foreign partners and finds (from a Chinese sample) that the relative power of the foreign partner does not affect joint venture outcome.

A somewhat different opinion about the importance of formal power is given in Child et al (1999). Child et al (1999) give two recommendations to foreign companies wanting to attain overall control of their joint ventures. First, a foreign partner should contribute to the joint venture with key resources, since control of vital resources such as technical know how and managerial knowledge is a way to guarantee authority over the company. The second recommendation is to increase their equity share in the joint venture as a way to achieve formal power. (Child & Yan, 1999)

Luo et al (2001) continue the discussion about the differences between over all control and specific control in Sino-foreign joint ventures. They, like Child (1999), find that the matter of who exercises control is of great importance. Their results differ to those from previous studies in that they find that the foreign partner and the local partner aim to reach different objectives with their quest for control. Foreign companies were more likely than the Chinese partners to seek to attain over all control. Over all control is the means to direct the whole range of activities in joint ventures and is seen as a necessity for companies wanting to gain efficiency, reputation and profitability from the joint venture. Over all control is however more costly than specific control<sup>42</sup>. Specific control is viewed as a way to guarantee special needs (e. g. skills and knowledge acquisition) and was consequently of more interest for the Chinese companies than for their foreign counterparts. (Luo et al., 2001)

#### **4.4.3 Summary of control in joint ventures**

Control can be studied both from the perspective of the mechanisms used in order to exercise control and from the perspective of extent and focus of the control exercised. Studies of control mechanisms analyze how control is exercised by joint venture partners. Control extent studies instead emphasize the extent to which

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<sup>42</sup> This is according Luo et al (2001) a result of higher costs related to budget preparation, executive time, more expatriate managers etcetera.

partners implement control, whereas control focus studies analyze in which area of joint venture operations that control is exercised.

*Control Mechanisms* typically consist of formal agreements, staffing and other types of influencing techniques. These can be divided into positive control and negative control. Positive control consists of practices that are used by a parent to encourage certain behavior, while negative control is the means for the parent to prevent certain actions. According to Killing and Schaan (1983) positive control is superior to negative control.

*Control Extent* focuses on the tightness of the control exercised. Joint ventures are typically divided into four groups, based on the control focus on their parent organizations. These are dominant parent joint ventures, shared management ventures, independent joint ventures and split management ventures. According to Killing (1983) dominant parent joint ventures are to be preferred to the other types.

*Control Focus* is the same as scope of control. Control focus can be analyzed from the exercise of control over resources, activities, output and relationships.

#### **4.5 Concluding Remarks on the Key Concepts of Perceived Performance**

Summarizing the literature, there are a few common ideas that are visible for all the key concepts.

*Firstly, the motives and goals of the partner organizations are important for performance.* The managers of the joint venture organization are usually assumed to share the goals and strategy of their respective parent organization. For Sino-foreign joint ventures motives and goals are often different between the partner organizations. At the same time the motives and goals are constant and universal. Whereas foreign partners want to achieve higher market share, profit, knowledge and learning, low labor cost and local sourcing through the joint venture, domestic partners want technology adaptation, managerial skills, profit, export and knowledge and learning.

*Secondly, the partners' characteristics are important for performance.* In order for the joint venture to be successful, selecting the partners to the joint venture is important. A successful joint venture is characterized by goals complimentary between the partners. Trust between the joint venture partners is also important, and so is learning. For Sino-foreign joint ventures financial fit between the partners is essential for joint venture performance.

*Finally, control division between partners is important for performance.* For joint ventures there are different extents of control: joint ventures can be dominant

parent joint ventures, shared management ventures, independent joint ventures and split management ventures. Related to this is the partners control focus in the joint venture, where control can be exercised over specific or a whole range of activities, resources, outcomes and relationships. Partner organizations use so called negative control mechanisms to prevent certain actions, and positive control mechanism to encourage certain behavior. For Sino-foreign joint ventures foreign partners usually want to have over all control, whereas domestic partners want to control specific activities.

Having summarized the findings from the JV literature, we now turn our attention to the empirical case of the dissertation.



PART III. HUA WO – THE CHINESE VOLVO  
CASE STUDY



## 5 History of Volvo Trucks' China Entry

*“So the background is quite simple, Åsa. You don’t have to complicate things! Sometimes you have to, I often say, pursue an issue by conviction and your understanding and not always let later-on-know-best people and lawyers say that it is without any risk, because then no business will be done”* (Quotation from interview with Karl-Erling Trogen Vice President of Volvo Group, former President of Volvo Trucks, 19 April 2004, translated from Swedish)

This case study is about the establishment of the Hua Wo joint venture between Volvo, through Volvo Trucks and Volvo China Investment company, and China National Heavy Duty Truck Group Corp. Ltd. in China.

### 5.1 Introduction to Volvo Trucks

Volvo Group is a multinational company that mainly manufactures commercial vehicles, diesel engines, construction equipment and components. In 2004 (when the operations of the Hua Wo joint venture started) Volvo Group had 81 000 employees, sales in 185 markets and manufacturing in 25 countries. The net sales of the Volvo Group amounted to more than SEK 200 Billion<sup>43</sup> (Volvo Annual Report, 2004).

#### 5.1.1 Volvo Group organization

*The Volvo Group* is a matrix organization of business areas (different brands) and business units (group internal supporting units). In 2004 there were a total of eight business areas and five business units within the Volvo Group<sup>44</sup>. *Volvo Trucks* was the largest business area within the group and accounted for 69 % of the sales of the business areas (Volvo Annual Report 2004). The Volvo truck brands are Mack Trucks, Renault Trucks (Nissan Diesel since 2007) and (confusingly) Volvo Trucks.

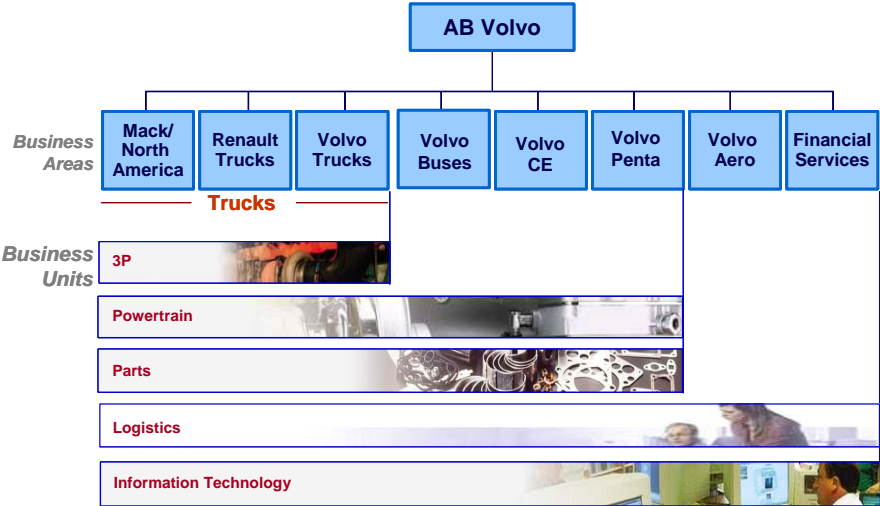
The truck manufacturing companies of the Volvo Group (all the truck brands) are served by all five Business Units. *Volvo 3P* is the common purchasing and sourcing organization for components not manufactured by the Volvo Group itself (tires, batteries, cabling, steel, rubber, steering wheels, seats, etc). *Volvo Powertrain* builds the engines, while *Volvo Parts* deals with the handling of spare

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<sup>43</sup> Approximately 28 billion USD (if \$1=7 SEK)

<sup>44</sup> In 2007 Volvo Group acquired Nissan Diesel which became a ninth business area.

parts which are common for the Volvo Group. *Logistics* handles transport and warehousing for all Volvo Group companies. *Information Technologies* is the internal IT-department handling corporate email and other IT-related issues.



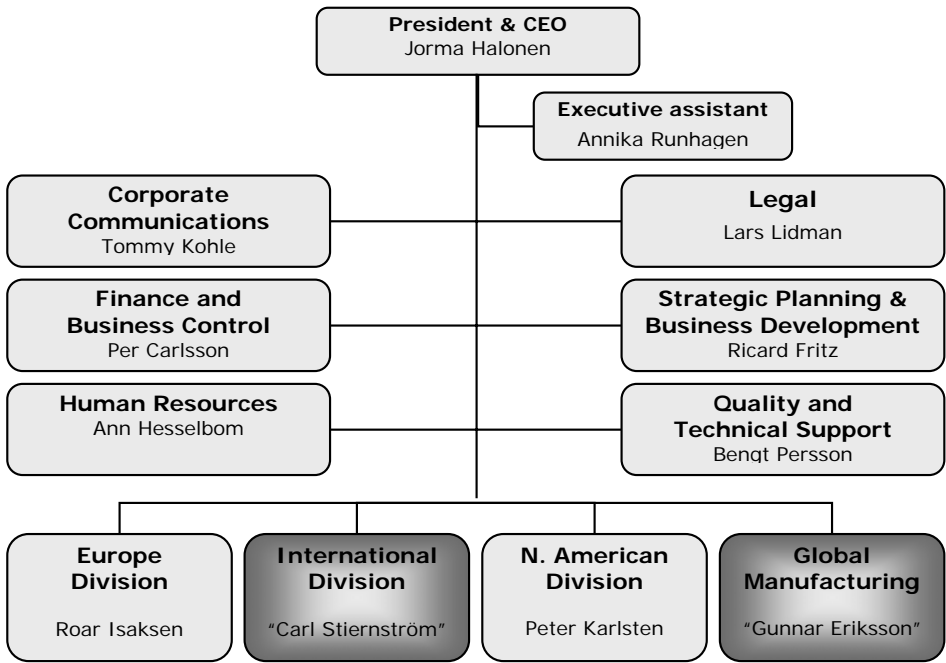
**Figure 14: Volvo Group Organization Chart 2004**  
*Source: Hedlund, M: Koncernpresentation 2 March 2001*

This case study focuses on Volvo’s business area *Volvo Trucks*. *Volvo Powertrain* and *Volvo 3P* are also included in the case study, since they are important stakeholders in the Hua Wo joint venture. All the other Volvo business units play only minor roles.

### 5.1.2 Volvo Trucks organization

Volvo Trucks is organized as a matrix organization. The manufacturing of trucks (often referred to as the industrial side of Volvo Trucks) is common for all geographical markets. The *sale* of trucks (referred to as the *commercial side* of Volvo Trucks) is divided into three geographical units; the Europe Division, the International Division and the North American Division.





**Figure 15: Volvo Trucks Organization Chart 2004**  
*Source: Internal information from Volvo Trucks Executive Group 29 of January 2004 (modified)*

This case study is about the establishment by Volvo Trucks in China, which falls under “*International Division*” for sales and “*Global Manufacturing*” for manufacturing. The head of International Division is for the sake of simplicity given the title “*president of international sales*” in the dissertation, whereas the head of global manufacturing is titled “*president of global manufacturing*” in the dissertation. The vice president of Volvo Trucks’ Global Manufacturing, and head of international manufacturing, is in the dissertation called “*president of international manufacturing*”.

*Volvo Trucks Greater China* (VTGC) is the Chinese sales organization, organized under *Volvo Trucks Area Asia* (VTC AA), which is a part of the *Volvo Trucks International Division*. In the dissertation the president of Volvo Trucks Area Asia is called “*president of Asian and Chinese sales*” and the VP of VTGC is referred to as “*vice president of Chinese sales*”.

However, an investment company *Volvo China Investment Company* (VCIC) also has a small role in this story. Since the Volvo Trucks Greater China organization is not a legal entity VTC officially works under the umbrella of VCIC, which is a

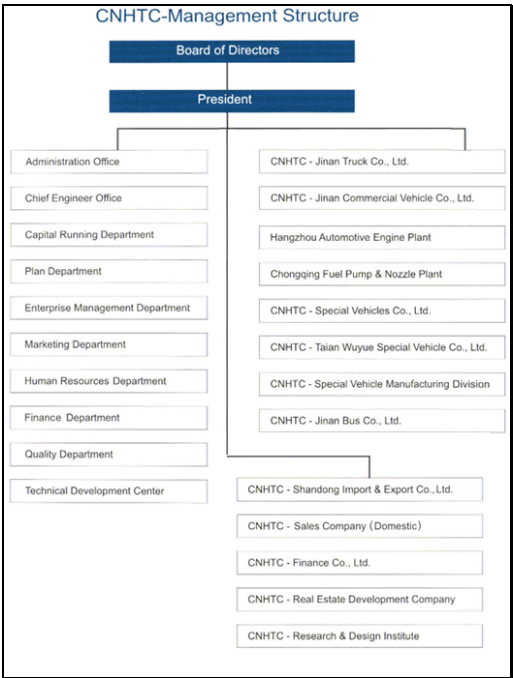
Volvo Group owned company. However, this is mostly a paper construction as during 2004 the head of Volvo Trucks' Area Asia and Volvo Trucks' Greater China, Jacob Wall, also became the head of Volvo China Investment Company. For the sake of simplicity, I will mostly treat the joint venture as having two joint venture parents; namely CNHTC and VTC. Nevertheless, in reality there are three joint venture parents: CNHTC (controlled by the provincial government) which owns 50 %, VCIC (controlled by the Volvo Group) which owns 45 % and VTC (controlled by the Volvo Group) which owns 5 %.

### **5.1.3 The Chinese partner CNHTC**

*China National Heavy Duty Truck Group Corporation Ltd.*<sup>45</sup> (abbreviated to CNHTC, China National or Zhongqi), and since 2006 also known as *Sinotruk*, is thus the formal owner of 50% of the Hua Wo joint venture. The company is the largest manufacturer of heavy duty tractors as well as the largest manufacturer of heavy duty trucks equipped with engines over 10 liters in China. CNHTC was founded in 1935 and its head quarters are located in the city of Jinan in the Shandong Province. The main products of the company include trucks (tippers, mixers, tractors and cargo trucks), bull dozers, wheel loaders, excavators and diesel engines. (CNHTC Official Homepage, 2007)

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<sup>45</sup> In Chinese 中国重型汽车集团有限公司 abbreviated 中国重汽 and/or 重汽



**Figure 16: CNHTC Organization Chart**  
*Source:* CNHTC official homepage, [http://www.cnhtc.com.cn/en/index2\\_zzjj.htm](http://www.cnhtc.com.cn/en/index2_zzjj.htm), accessed 30 June 2007

Ma Chunji is Chairman of the Board of Directors and Cai Dong is President of CNHTC. In 2004, the revenue of the CNHTC was more than 10 billion RMB<sup>46</sup>.

**5.1.4 Other internal JV stakeholders**

There are two main Volvo stakeholders: “*the commercial side*” (Volvo Trucks Greater China) and “*the industrial side*” (Volvo Trucks Global Manufacturing). Important Volvo stakeholders are also the supplier organizations of 3P and Powertrain, which are responsible for providing the factories with input materials not manufactured by the Volvo Group itself.

<sup>46</sup> Approximately 1,4 billion USD (if \$1 = 7RMB)



**Figure 17: Localization of 3P offices**

*Source: Volvo Group Annual Report, 2006*

### **Volvo 3P**

Volvo 3P is the business unit of Volvo Group that is responsible for product planning, product development and purchasing for the Volvo truck brands (Volvo Trucks, Mack Trucks and Renault Trucks). Volvo 3P has about 3 000 employees localized in Gothenburg, Lyon, Allentown, Curitiba, Bangalore, Shanghai and Brisbane (Volvo Group Annual Report, 2006).

### **Volvo Powertrain**

The Powertrain business unit is responsible for providing engines, rear axles and transmissions to all the business areas except Volvo Aero and Volvo Financial Services within the Volvo group. Manufacturing plants are located in Skövde and Köping in Sweden and in Curitiba in Brazil (Internal documentation: “Powertrain Organization Chart 2004”).

## **5.2 Planning a Truck Joint Venture**

Having presented the contextual setting of Hua Wo, and the stakeholders involved in the management of the joint venture, it is now time to turn back the clock and tell the story of the history of the joint venture.

### **5.2.1 Focusing on emerging markets**

As long ago as in 1992 the Volvo Group articulated the first plans to establish local manufacturing of trucks in China.

The China establishment would be a part of larger strategic plan to focus on emerging markets. China, India, Eastern Europe, Mexico and Pakistan were seen as the future for the Volvo Group. When the China and India establishments were being planned, Volvo Trucks had already started production in Malaysia, Poland

and Botswana. The reason was the company's aim to invest not only in new products, but also in new markets. The main argument for this was that the economies in these countries would grow faster than the European markets. As a result of this economic growth, the Volvo Trucks' executives argued, the infrastructure would be received additional attention, something that would benefit the automotive industry of these countries.

*"The motive at that time, we had two large projects, we started with China but soon after we went on to with India; the motive was more or less that we were aware that China is a market that is going to explode. It is a large market, it will be opened up for western companies, and the thing is that we had to find a partner, we could not be alone. That's the motive really. To be there when it loosens."* (Quotation from interview with VTC Global Manufacturing Executive April 2004, translated from Swedish)

In the analyses of Volvo's future markets, India and China were seen as the most promising countries for Volvo Trucks.

### **5.2.2 Planning the China establishment**

At this time, China had already experienced a high economic growth rate during more than two decades. The economic growth, together with the Chinese state's large investments in infrastructure, made the Volvo Trucks' executives assume that the demand for heavy duty trucks would grow fast in the future:

*"The motivation for Volvo to be here is that it is the most populous country in the world, with a growth potential which is absolutely unique. There is no country in the world, except for India, that could offer such a growth opportunity.[...] in China, if you want to be a real player you have to have local production. Otherwise you are too expensive. And if you want to be a player you have to have sales of around ten thousand in the future. Definitely, because the truck market today is already a magnitude of 250 000 units."* (Quotation from former Volvo Trucks' Greater China Executive, September 2003)

However, it soon became clear that the China project would be different to the prior experiences from other developing markets. In 1993, after the first explorative visit of the Volvo Trucks executives to potential sites for a truck factory in China, a small venture was suggested. This venture should preferably be located in a part of China with good transportation possibilities, since the idea was that the factory should start to assemble truck kits (CKD-kits) which were shipped from Gothenburg. The main idea was to start small and to grow according to the demand for heavy duty trucks in the market.

*“The vehicles they are selling, and registering, are of different quality of the European vehicles. One third of the price of our trucks, but the gap will be smaller and smaller in the future, because of the increase of the motorway network, the changed legislation, as far as overweight is concerned, as far as engines configuration, and engine emissions are concerned. And last, but not least, the expected change of the taxation for the vehicles. Road maintenance tax will be changed to fuel tax. And fuel tax will increase the price of fuel, and then the customers will start to compare “What is the consumption of this vehicle and the consumption of this vehicle, calculated in ton kilometres?” (Quotation from former Volvo Trucks’ Greater China Executive, September 2003)*

The Chinese automotive market was also assumed to be changing from lighter vehicles to heavy duty trucks, something that Volvo felt they should exploit:

### **5.2.3 Joint venture as the only choice of entry mode**

When the decision to enter China was taken by the Volvo Group, the form of investment had to be agreed upon. Since the automotive industry was part of a so called “strategic industry” foreign investors were not allowed to establish wholly foreign owned enterprises (WFOEs) and Volvo was informed that the only possibility to enter the Chinese market was through a joint venture with a domestic partner.

### **5.2.4 Looking for a suitable truck partner**

In 1993 the preparations to find a suitable partner started and a group of Volvo managers went to China to pave the way. A possible joint venture partner was found in Penglai in the Shandong province, in the north-eastern part of China.

In the first plans the establishment was to have limited investments and the aim of the joint venture was to assemble Volvo truck kits shipped from Gothenburg. According to these plans, the joint venture would be a small scale establishment, using the old Volvo technology and models. The aim of this joint venture would be mainly to create a presence in the market (Internal documentation: “Project History” by J. van Setten, 1996).

*“We were traveling around Shandong and after that we went home and wrote a report to the management team. It was said from the beginning that we should invest very little capital but that we should be there in order to gain access. So we spoke about the CKD- activity, in other words nothing more than assembly of trucks. It [the joint venture] should be localized in a central place, have good logistics. And then we found a good partner in Shandong, in Penglai, not in Jinan. We were very close to finalizing the deal then”. (Quotation from interview with former VTGC Executive April 2004, translated from Swedish)*

At the very same time Volvo Group was involved in yet another joint venture negotiation regarding a Volvo Bus joint venture. When the Chinese negotiation team for the bus joint venture made a visit to the Volvo Group Head Quarters in Gothenburg they informally told the Volvo Group executives that Volvo Trucks' would never be able to finalize the deal with the chosen partner:

*"Bus had come further [than Volvo Trucks]. Volvo Bus had Chinese visitors from the State Plan Commission in Gothenburg and since Bus knew that we had just started to look at China, they came to us and got an introduction to what we, at Trucks, were doing. And then these two, rather influential gentlemen, said: 'you are heading the totally wrong way here, because in a month we are going to issue an automotive policy that will make your relationship with this little company in Penglai impossible'.* (Quotation from interview with former VTGC Executive April 2004, translated from Swedish)

Shortly after this visit, a new automotive policy was issued. In this policy it was stated that only a few local truck players were available as partners in foreign joint ventures, and the company in Penglai was not among them.

### **5.2.5 New government demands on foreign investors**

The new policy did not only regulate possible partners for future cooperation, but also the size and total value of the investments. Only the three largest manufacturers of heavy duty trucks were to be allowed to cooperate in joint ventures with foreign investors; namely China National Heavy Duty Trucks (CNHTC), Second Automotive Works (SAW, which later was renamed Dong Feng) and China North Industries Corporation (Norinco).

As a result, Volvo had to start negotiations with a new partner. Volvo Trucks were advised to start negotiations with the third largest truck manufacturer in China, CNHTC. Since SAW was already negotiating with Nissan and Norinco with Mercedes, CNHTC was the only possibility as it was large enough to be able to fulfill the demands of the automotive policy. In order to be allowed to engage in a joint venture, JV's domestic partner had to have a production capacity of 20 000 trucks per year and invest 2 % of the turnover in research and development.

The requirements on the parts of Volvo were even higher. The foreign partner had to have an international sales network, advanced technology, own patent- and trademark rights and a financially strong position.

Furthermore, demands on the joint ventures were that the local integration (part of locally sourced material) should be 50 % from the start of production and the joint venture had to generate foreign currency and have the capacity to develop new

truck models. Then, the automotive policy stated, the joint venture had to have an annual production capacity of 10 000 trucks. Last, but not least, the foreign company share of ownership was limited to 50% (Internal documentation: “Project History” by J. van Setten, 1996). Despite these restrictions Volvo Group decided that Volvo Trucks should continue to strive for a China establishment, this time with CNHTC as the partner.

### **Negotiations with CNHTC**

The negotiations with CNHTC started in 1994 and a letter of intent with the Jinan based conglomerate was signed in August the same year. During 1995 and 1996 the details of the project were decided. According to the internal documentation of the joint venture project, the plan was for the joint venture to be a Greenfield establishment with large investments. The joint venture would use modern technology and have high local integration. This would be a high profile project for the Volvo Group, aiming to give Volvo a stable presence in China (Internal documentation: “Project History” by J. van Setten, 1996).

#### **VISION**

- The JV shall be the leading heavy duty truck company in China.
- The JV shall by the customers be considered as the best business partner.
- Products, quality and service to the customers shall be of world class.
- The profitability shall give the JV-owners an adequate return on investments.
- The JV shall be of benefit to the Chinese society.
- The JV shall strengthen the value of the Volvo brand name.

**Figure 18: The Vision of the China project** *Source: Internal documentation: Project History by Jan van Setten (1996)*

The joint venture planning was based on estimations of a high volume growth. Different volume plans circulated but the main idea was that the market for trucks would continue to grow over the next ten years, from 35 000 heavy trucks annually in 1997 to 80 000 trucks by 2007. Of these, the joint venture was predicted to sell 14 000 in 2007 (Internal documentation: “Project History” by J. van Setten, 1996). However, different volume estimations were presented to different audiences, and figures ranging from 10 000 to 30 000 trucks sold annually were presented to different Volvo stakeholders.



*"When we started the China project the volume plan was around 30 000, I know when Ulf Norman... I took part in the first presentation when the representatives for China and India met. It was in '96 we met, I think it was in February something. We started the India project; it was Ulf Nordqvist that was head of the India project. And I remember Ulf Norman showed the volume plan for what was possible; and why we should do this in China."* (Quotation from interview with VTC Area Asia Executive March 2004, translated from Swedish)

### **CNHTC and Volvo Trucks' start to develop a joint product**

One part of the optimistic volume expectations was the plan to develop a less technologically advanced and cheaper truck together with the truck partner CNHTC. This truck would be a combination of the CNHTC truck model *Steyr* and the Volvo model *FL*, and it would be called "FL-Steyr" (Internal documentation: "White Book" by E. Simonsen). The decision to enter into a joint project was taken by the China project committee in the spring of 1997. The objective of the project was to take advantage of the cost leadership of CNHTC as well as the superior quality of Volvo:

*"The objective was to create a truck of superior quality and reliability when compared to the CNHTC Steyr. Price wise it should fit in the gap between the domestic and the imported trucks".* (Simonsen, 2000 p3)

The goal of the FL-Steyr truck was to create a large volume for truck production in the joint venture. This would be especially important during the first five years when the demand for the Volvo trucks still would be low. In the description of the project the following volume expectations were given:

*"The FL-Steyr was intended to create the volume of the JV production during the period until the Volvo products would "come up to speed" – in other words it should be the "bread and butter" for the JV. The original sales estimate was more than 10,000 units per year mainly sold through the CNHTC organisation."* (Simonsen 2000, p3)

#### **5.2.6 The cooperation is formalized**

During 1997 the future seemed bright for the joint venture as the discussions with the joint venture partner were proceeding according to plan. After the project description was approved by the relevant governmental authorities<sup>47</sup> in 1997, the next step was to formalize the cooperation with CNHTC in a joint feasibility study. This report was a prerequisite for a joint venture contract to be approved by the Chinese authorities.

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<sup>47</sup> The Ministry of Machine-Building Industry (MMI) approved the revised project description in March 1997, State Planning Commission approved it in November 1997 and State Council approved it in December 1997.

When the negotiations about the joint feasibility study started, Volvo Trucks experienced the first real difficulties. Firstly the negotiation process was considered going too slowly:

*“A very strange situation it was, it was very tough and heavy work. Except that you had interpreters you should explain all these clauses as all lawyers know about, but they had none. And then [...] they had very little understanding of market economy and economic issues and profit, how you account and how...it became very political. The people sitting there were not business men, sometimes statement came that was not... yes someone had told them what to say. It was just a political pamphlet they delivered that did not matter to our project at all. It was a very frustrating process.”* (Quotation from interview with VTC Executive February 2004, translated from Swedish)

The largest stepping stone was the issue of the Volvo technology. In the negotiations it became clear that CNHTC expected to be allowed to use Volvo technology outside the joint venture also. This was not what Volvo wanted.

*“Their idea was to get access to our technology; to steal it. When I was there the first time it was totally open, there was no one - nobody that pretended anything else. They said so, that the law was like that; that after a while the technology belonged to the joint venture. And the joint venture could use it as it pleased. That was very open, so it was not a secret; but it was a pretty strange situation to sit there and have invested billions and billions in technology and then to put it into a joint venture. They wanted to use it in their own operations in China National. It was like this.”* (Quotation from interview with VTC Executive February 2004, translated from Swedish)

**Executive Summary 1 (3)*****The China HDT market is attractive***

- Already one of the largest truck markets in the world.
- Expected to grow at 7% p.a.
- Moving from low-quality low price products to a mature mix.
- Chinese economy and political environment stable in the long term despite potential short-term bumps.

***JV under negotiation offers a unique opportunity***

- VTC has full Chinese government support to be the first full-fledged foreign truck manufacturer in China.
- Opportunity to form a partnership with current market leader in above 10-ton-payload segment (CNHTC).
- Only selected assets and no commercial liabilities are included.
- No surprises in environmental liabilities.
- Flexible product mix spanning all HDT segments.
- A “no” today would effectively shut out VTC from the China market for at least 5-10 years.

**Figure 19: Executive summary joint venture projects 1996****Source: Internal documentation: “Project Description” by J. van Setten 1996, p1**

Even though the representatives of the legal department of Volvo Trucks were skeptical towards the partner's underlying motives, the Volvo Trucks' executives decided to continue the negotiation process. Apart from the importance of presence in China, the window of opportunity was believed to be closing. The political support from the Chinese authorities for the project was also considered to be an important factor.

### **Executive Summary 2 (3)**

#### **JV with CNHTC is the only viable entry vehicle**

- Protected industry: Wholly owned subsidiary not an option, 50 % foreign equity a maximum.

#### **Intend to set up a full fledged operation**

- 50: 50 JV called Jinan Truck Corporation.
- Products: Ultimately Volvo FM, in the interim lower priced Steyr and FL-Steyr to build volume.
- Distribution: Products and spare-parts flow to a significant extent controlled by JV.
- Production: Ultimately full manufacturing, including engine plant. Annually capacity of 20 000 trucks.
- Total new investments of 2.2 billion RMB over 10 years (1SEK= 1.037 RMB)
- VTC's cash contribution will be 720 million RMB, in addition VTC has to invest 255 million in vendor tooling.
- JV's local sourcing will offer opportunities for competitive supply of parts to the Volvo Group.

**Figure 20: Executive Summary joint venture projects 1996**

**Source: Internal documentation: "Project Description" by J. van Setten 1996, p2**

However, the project demanded large capital investments. The capital that Volvo estimated would need to invest amounted to 2.2 billion RMB. Despite these large investments, the business proposition was based on the calculation that the joint venture would reach break-even in 2003. Although the project team warned for the potential risks involved, they recommended the Volvo Trucks' executives to "go ahead" with the project.

**Executive Summary 3 (3)*****The business proposition is profitable and robust***

- Break-even expected in 2003.
- Cumulative free cash flow positive by 2006.
- Overall NPV of 800-1,200 million RMB (expected case).
- Sensitivity analysis with respect to volume, price, and product mix changes does not change fundamental attractiveness.

***Investment not without risks***

- Despite confidence in economics and political environment, changes cannot be ruled out.
- Need to closely monitor credit exposure.
- Need to manage partner's weaknesses (financial, surplus employees).

***Recommend to go ahead***

- Can expect JFS approval by April 1999.
- Start of operations by July 1999.

**Figure 21: Executive Summary joint venture projects 1996****Source: Internal documentation: "Project Description" by Jan van Setten 1996, p3**

The Volvo executives approved the suggestions by the China project team and the first joint feasibility study (of 1998) was based on the assumptions presented in the project material.

### **The first joint feasibility study**

In 1998 the joint venture feasibility study was sent to the Chinese authorities for approval. In this document considerable concessions were made when it came to capital, production capacity and technological know-how. The joint venture, which would be jointly owned by Volvo Trucks and CNHC, would eventually have 3 000 employees. It was planned that in the joint venture no fewer than 50 expatriates from Volvo Trucks should work. The new company would also have several different plants for the production of cabs, engines, frames, assembly and a forge.

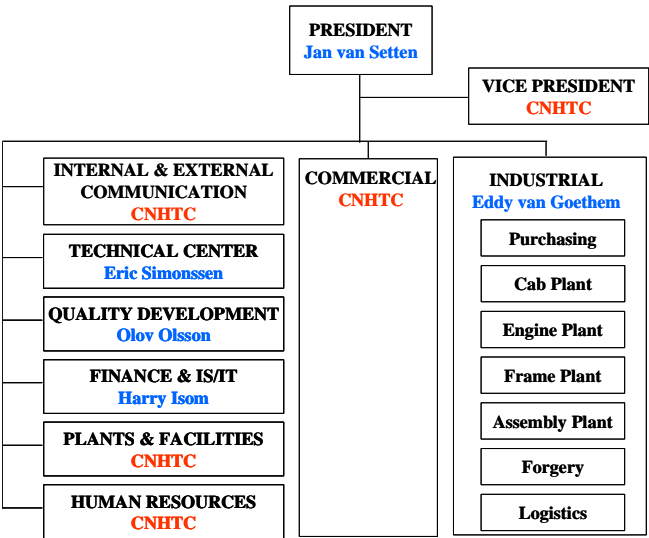


Figure 22: Organization chart Joint Venture Organization  
Source: Internal documentation by Jan van Setten 1996

In addition, the joint venture would have a purchasing and a logistics organization as well as technical centre, quality development centre, a human resource centre and finally a finance and IS/IT centre. Four different trucks models were to be assembled: a Volvo model for the Chinese market (called FM12), a Volvo model for export (called FM 10), a combination model (called FL-Steyr) and a CNHTC model (called Steyr). According to the calculations, 3 000 trucks would be sold the first year and 15 000 trucks by 2007.

In order to be prepared to start operations, Volvo began to appoint employees to the future factory. More than thirty Volvo expatriates were sent to China, together with their families. Many of those started working in the FL-Steyr project developing a truck together with a project team from the Chinese partner CNHTC. For a description of this period of time in the history of the joint venture project, see Klippare (2002).

### 5.2.7 Problems – financial difficulties and political interference

According to the Volvo Group top management, the reason for the large size of the project was mainly political. Even though issues like volumes and levels of investments were regulated in the agreements between CNHTC and Volvo, it was believed that the stipulations in the feasibility study were first and foremost aspirations, not promises. When a representative from the legal department was asked about why they did not interfere, he answered as follows:

*"But my God, I told them, it was not like we did not tell them these things! But it was said that it was good that they reached agreement about the issues in the contracts before this and that started. No, it doesn't matter what we sign, it does not matter. There was always such a hurry."* (Quotation from interview with VTC Executive February 2004, translated from Swedish)

In 1998 the first major setback of the joint venture came when the joint feasibility study failed to be approved by the concerned departments of the China State Council. After the Letter of Intent (which was signed 1994) nothing definite had happened. When finally, in 1998, the joint venture feasibility study was sent to Beijing for approval it was assumed that the joint venture would start operations within a year. The rejection of the joint feasibility study came as a total surprise for the managers involved in the joint venture project.

*"The summer of 1999 we had, however, to revise the joint feasibility study, because the government thought it was too ambitious. And they were right, it was far too ambitious. But it was good that they came back and said that the initial requests, for, in terms of volumes, in terms of investment, in terms of employments conditions were not realistic."* (Quotation from interview with former VTGC Executive September 2003)

As a result, concerns about the project were raised by the members of the different Volvo organizations at the headquarters in Gothenburg. Managers, especially from the industrial side of Volvo Trucks, voiced their frustration over the way the negotiations were being held and the inertia of the process:

*"We made jokes and said "there goes another batch of crystal vases". Sometimes we thought that "there will be no result anyway", it didn't feel like it. I think that perhaps top-management and those working in the projects had clear objectives, and believed in all this. For the people not involved, or concerned, I think we all felt that "what in heavens name should we go there for, nothing will happen anyway."* (Quotation from interview with VTC Global Manufacturing Executive February 2004, translated from Swedish)

One part of this was the distressing signals from the expatriates that had been working with the FL-Steyr project in Jinan since 1997. They reported that the joint project, the FL-Steyr truck, was not proceeding according to plan. Low commitment from the partner especially was blamed for the disappointing results:

*"The project work constantly suffered from lack of co-operation from the partner. Necessary information was not easily available or not available at all. The personnel allocated by CNHTC to the project group could at anytime be removed or given other tasks"* (Internal documentation by Simonsen 2000, p4)

Taken together, the difficulties experienced in cooperating with CNHTC in the FL-Steyr project as well as in negotiating the joint venture feasibility study, resulted in a general loss of faith in the joint venture project. Managers within Volvo Trucks started to complain that the necessary evaluation and reflection behind the project were missing. That the main motive behind entering China was the potentially big market - that much was clear. But what Volvo Trucks would do after the joint venture was formed was not self-evident.

*“Yes, you could ask that; did anyone say anything about that? It was considered so obvious that we should enter China, because it is the biggest market in the world. I did not hear, not once, did I experience that it was questioned or evaluated, because it was self evident that we should enter China”* (Quotation from interview with VTC Global Manufacturing Executive February 2004, translated from Swedish)

As a result of the internal criticisms from the Volvo Trucks organization and the rebuttal from the Chinese authorities, a revised and less ambitious joint feasibility study was prepared and submitted to the Chinese authorities in 1999.

### **Revising and changing the plans of the project**

The largest difference between the joint feasibility study of 1998 and the revised joint feasibility study of 1999 was the scope of the joint venture and the sales expectations (JV Feasibility Report, 1999). In the 1998 feasibility study the scope of the joint venture was so broad that, in reality, it could be seen as the start of a Volvo Trucks' acquisition of CNHTC<sup>48</sup>. The revised version of the joint feasibility study built on lower volume expectations, smaller scope of business and less capital in total investment.

In this feasibility study the joint venture would be independent of the parent companies and be responsible for production, sales and development of not only trucks but also engines, bus chassis, components and parts. In addition the joint venture would also be responsible for imports and exports as well as after sales service, including training and maintenance (JV Feasibility Report, 1999).

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<sup>48</sup>A formal merger or acquisition of CNHTC was not possible since mergers between and/or acquisitions of Chinese companies by foreign parties were not allowed in the Chinese Automotive industry at the time of the agreement



## 2.2 Basic Principles for Establishing the Joint Venture Company

### 2.2.1 Business Scope of Joint Venture Company

- The JVC shall produce and sell heavy duty trucks, bus chassis, diesel engines and their components, and forged parts.
- The JVC shall research and develop products and technologies which are related to production and sales.
- The JVC shall handle import and export business on its own.
- The JVC shall provide the relevant business to its customers such as technical advice, training, and maintenance service, etc.

**Figure 23: Section from “Feasibility Study Report of Jinan CNHTC/ Volvo Truck Co.; Ltd. Established as a Chinese Swedish Equity Joint Venture - Revised Version July 1999”**

*Source: Volvo Trucks Internal Information*

The total investment in the revised version of the joint feasibility study is 200 MUSD (compared to the 500 MUSD 1998). In the feasibility study four products were listed for definite production in the joint venture, namely; the CNHTC truck called “Steyr”, the joint venture developed truck called “FL-Steyr truck”, a Volvo truck called “FM” and a “D12 engine”. In addition an intention to produce parts and forging parts in the joint venture, was (somewhat vaguely) expressed in the joint feasibility study as: *“In principle, the JVC shall undertake the production of key parts and components of trucks, such as cabs, frames, engines and truck assembly, and large forging parts.”* Finally the joint venture should also *“have the possibilities to supply bus chassis and components to other bus body builders”* (JV Feasibility Report, 1999; p6).

In the revised joint feasibility study volume expectations were scaled down. According to the volume plan, the number of vehicles sold in 2007 would amount to 10 000 trucks. Of these, 7 000 would be the combination truck “FL-Steyr” and 3 000 would be Volvo FM (whereof 1 300 for domestic sales). In addition, the joint venture would assemble 2 000 engines in 2007.

### **The revised feasibility study is “conditionally approved”**

This revised joint venture feasibility study was conditionally approved by the State Development and Planning Commission (SDPC) in December 1999. The reason for conditional approval was the fact that CNHTC had serious financial difficulties, something that the Chinese government was aware of. Not until the financial situation of CNHTC had been brought under control would the final approval be granted.

The relationship between Volvo and CNHTC was naturally affected. Firstly many, if not all, of CNHTC's top leaders had to resign as a result of the financial mismanagement. The negotiation team from the Chinese side consequently changed over night. Secondly, the figures and promises given by CNHTC were no longer valid.

*"They were faking all sorts of figures, when we asked for them. They were desperate at that time, and really wanted to have a foreign partner in order to get technologies, and even more so capital at that time. And Beijing did not support this project, because they looked at things more realistically than the local people from Shandong. That this is no good!"* (Quotation from interview with former VTGC Executive September 2003)

At that point the management of Volvo Trucks got cold feet. Many critical voices about the joint venture project from the whole Volvo organization could be heard, especially with regard to the large investments involved.

*"It was hard, because it was too big. We were forced to make it too big. Then I think there were forces in Volvo that wanted to make it big. So it became too big, too tough, too hard and too difficult"* (Quotation from interview with VTC International Division Executive February 2004, translated from Swedish)

*"I was thinking about the strategy here at Volvo, what I mean is that is must be so big. Must be... Must be, I think it was a lot of must be."* (Quotation from interview with VTC Global Manufacturing Executive February 2004, translated from Swedish)

In 2000, the restructuring of CNHTC began and the conglomerate was divided into three groups. The initial 75 000 employees were reduced to about 25 000 and the new smaller CNHTC was taken over by the Shandong government (it has previously been owned by the Chinese state).

### **5.2.8 Downsizing and restructuring**

The management team of Volvo Trucks also underwent changes during this time. The new president of Volvo Trucks, Roar Isaksen, decided that the cost of the joint venture project was too high. As a result, Volvo decided in early 2000 to scale down the project and bring home its employees from Jinan. The whole project was put on ice.

*“Roar Isaksen said ‘What is this rubbish?’ ‘It is nothing but a damned big cost, I cannot afford it.’ And then they began to downscale it, so to say, and to bring people home”. (Quotation from interview with VTC Global Manufacturing Executive February 2004, translated from Swedish)*

The disappointment of the people working in Jinan was substantial when the decision to break the cooperation with CHNTC became known. In the summary of the FL-Steyr project known as the *“White Book”*, the criticism of the strategy and management of the FL-Steyr project is severe. When listing the negative project experiences the problems with internal processes were highlighted, of six negative experiences connected to the project, five of them were internal to Volvo:

### 0.3 Project experiences

#### Positive experiences:

- Building the four certified trucks in Dang Jia Zhuang.
- Forming the project group and working together in one location.
- The development of the CNHTC designers after the move to the East Gate Office.
- The Global Development Process functioned as intended.

#### Negative experiences:

- Lack of co-operation from the JV partner.
- Uncertainty about the prerequisites of the project: ever changing information concerning vehicle volumes, factory location and personnel availability.
- Seeming lack of interest from the Commercial Department during especially the later state of the project (or maybe they have been too busy with Volvo products). Not even a model name could be agreed upon!
- The project was primarily time and feature driven the cost focus came rather late.
- Lack of support from VTC from early 1999.
- Lack of understanding in the senior management team for the Global Development Process. This delayed the formation of a genuine project organisation by several months.

**Figure 24: Project experiences from “White Book” P2381 FL-Steyr Introduction June 2000**

*Source: Internal documentation by E. Simonsen 2000, p5*

## Scaling down the project

When the decision to terminate the cooperation with CNHTC concerning the FL-Steyr project was taken, Volvo Trucks still had to find a way to enter the Chinese market.

In late 2000 it became clear that the revised joint feasibility study could present a problem for Volvo Trucks' future in China. The commitments in the joint feasibility study were hard to break, and Volvo Trucks was informed that partnering with CNHTC was still the only possible way for China entry. Consequently, much effort was spent on revising the contents of the feasibility study in order to get a smaller project (Internal documentation: “JV Related Information 1997-2001” by J. van Setten).

Reading the JFS text you will realize that a formal approval of this document will bring us in a very difficult position. Therefore some urgent lobby work in Beijing together with our J. V. partner is needed on a very short notice. But of course we first have to agree with CNHTC about the revised Basic Principles for the J. V. with the new CNHTC Jinan Co. Ltd.

**Figure 25: Section of e-mail from Jan van Setten (China project manager) sent to Roar Isaksen (head of Volvo Trucks International Division) 29 January 2001**

**Source: Internal documentation: “JV Related Information 1997-2001” by J. van Setten**

However, in 2001 a major change of the Volvo strategic direction took place. This change, which also came to affect the China strategy for Volvo Trucks, was the acquisition of Renault Trucks and Mack Trucks by the Volvo Group.

*“Because then in 2001 we bought Renault and Mack. And then, all of a sudden, some of the interest from the Volvo side was lost. Renault had not come as far as we had done, we had been here a longer period of time, but they had in reality a much better partner in Dong Feng Motors.” (Quotation from interview with former VTGC Executive April 2004, translated from Swedish)*

Volvo now had an alternative solution to their localisation problems. The Volvo executives also understood that it would be difficult to be able to get two joint ventures approved for truck manufacturing in China, and Dong Feng seemed to be a better partner.

*“Then the Volvo Group management team realised that the government would never approve of Volvo getting two joint ventures on the trucks’ side; not two large ones anyway. Therefore they decided that ‘now we try slowly and steadily with both of them, in a smaller scale, to see which of them succeeds’.” (Quotation from interview with former VTGC Executive April 2004, translated from Swedish)*

### **5.2.9 A new start**

In 2001, a last attempt was made with the joint venture project with CNHTC and it was decided that the negotiation process should be started again. At this time the *Joint Feasibility Study* from 1999 had been approved by the Chinese authorities.

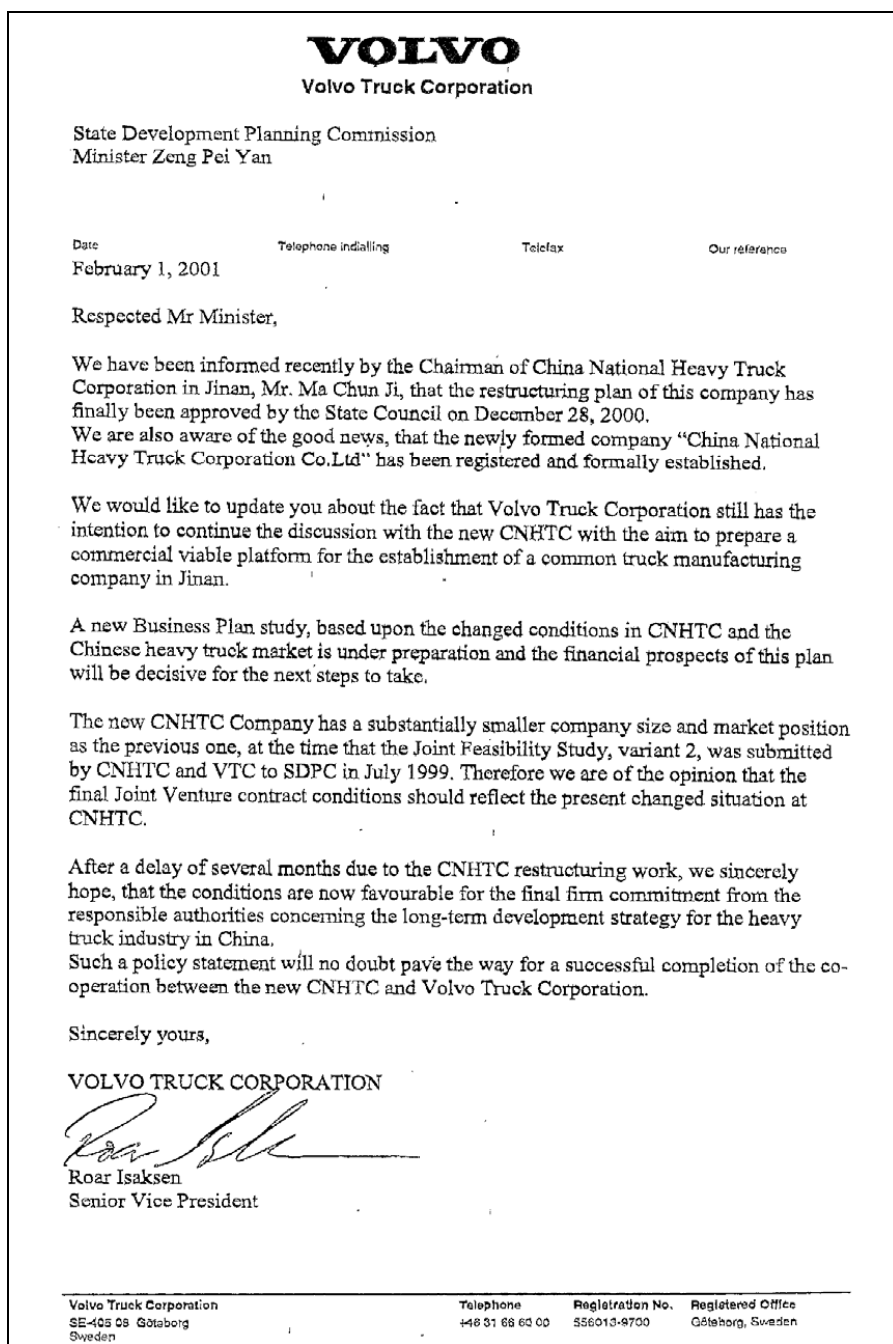


Figure 26: Letter concerning changes in joint venture business plan sent from Roar Isaksen to Minister Zeng Pei Yan of SDPC February 1, 2001

Source: Internal documentation: "JV Related Information 1997-2001" by J. van Setten

However, in 2001 Volvo Trucks was not interested in having a project together with CNHTC according to the terms in the Joint Feasibility Study. In the negotiations with the partner, and in communication with the Chinese governmental authorities Volvo Trucks made considerable changes compared to what had been planned in the joint feasibility study.

In the new negotiations three areas that Volvo Trucks would never give up were identified: Volvo Trucks was to have management control of the joint venture, to control the technology of the joint venture and to control the distribution of the joint venture products. This was vital to the new management team of Volvo Trucks.

*“And I felt more and more that if this doesn’t go, then we don’t bother. It must go, otherwise we are not interested. That was the starting point.”* (Quotation from interview with VTC International Division Executive February 2004, translated from Swedish)

Another major shift was the size and financial investments of the joint venture project. This was partly because of the hard-earned lesson from the India market, where Volvo had succeeded in completing a large plant only to discover that the size of the market had been greatly overestimated.

*“There is only one way and that is to build step by step. It must be accepted, that those steps are not pre-determined actions, but a direction we should reach to when the market is ready in order not to become forced to start a factory in three years time if it doesn’t work out.”* (Quotation from interview with VTC International Division Executive February 2004, translated from Swedish)

The final joint venture contract was approved in June 2003. By then all of Volvo Trucks’ important claims had been accepted by CNHTC and approved by the Chinese government (Ministry of Commerce). Even though Volvo (through its subsidiaries) officially only controlled 50 % of the shares in the company, Volvo had been granted management control, and had the right to appoint both the president and the financial controller. After this the president should appoint the rest of the management team. In order for Volvo Trucks to convince the Chinese partner to sign such an agreement, Volvo Trucks gave CNHTC the necessary tools to produce a small truck that was viewed as out of fashion and not part of the heavy duty truck core business program of Volvo Trucks.

<b>Article 4: Purpose and Scope of Business</b>	
4.1	The Purpose of the JV Company is to use advanced technology and scientific management techniques in order to establish a world-class manufacturing facility in China to develop, assemble, manufacture and sell the JV Products with shall be competitive in quality and price and of a high technical standard, and thereby obtain satisfactory economic benefits for the Parties.
4.2	The JV Company's scope of business shall be to develop, assemble and produce trucks, cabs, diesel engines, and parts and components therefore; to sell its products; and to provide customer support, consultation, training and after-sales services.
4.3	The Parties contemplate that the JV Company will produce two thousand five hundred (2,500) trucks per year by the year 2005. The Parties further estimate that if market conditions permit and upon operation of the manufacturing plant, they would be able to produce ten thousand (10,000) trucks per year by the year 2008.

**Figure 27: Article 4 of Joint Venture Contract between China National Heavy Duty Truck Corporation and Volvo Trucks Corporation for the establishment of Jinan Hua Wo Truck Corporation**

In the final joint venture contract the size of the investment had been greatly reduced. The total investments of the joint venture were set to around 200 MUSD, which was less than half of the initial investment plans. Another large difference between the joint feasibility study and the joint venture contract concerned the initial volumes; in the feasibility study 3 400 trucks were planned to be produced already the first year of operation (in 2000) and after six years it was planned that 10 000 trucks would be produced. The corresponding figures from the contract was 2 500 trucks after three years and to increase the production only if the market demanded it.

*"The contract that we have completed now is so much better than the initial feasibility study contract. You can easily see the differences. No commitment for personnel, no commitment for salaries, no commitment for volumes, no commitment for anything. It was a real 50/50 management in the other one, and now it is more or less controlled by Volvo... The invested money is not allocated because it was agreed upon; it is allocated because we need it. In the other contract we need to bring in 400 million US within a very short period of time. Regardless of whether you are producing trucks or not, and now it is not the case."*  
(Quotation from interview with former VTGC Executive September 2003)

The greatest difference between the agreements, however, was that the contract did not contain as many details about products, investments and models as the feasibility study. Thus, the joint venture was a different company from than that of the establishment plans of 1998 and 1999.

The formal approval of the truck joint venture, the joint venture between China National Heavy Duty Truck Group Co. Ltd, Volvo Trucks' and Volvo (China) Investment Company, was given to the company 9th of June 2003.



## 6 Establishing the Hua Wo Joint Venture

*“We from the industrial side said it all the time: Let us establish a CKD factory, a knocked-down factory. We can do that blindfolded in four months time.”* (Quotation from interview with Global Manufacturing executive February 2004)

*“We had to establish this meeting because it exploded here and there and everywhere in the beginning.”* (Quotation from interview with Global Manufacturing executive February 2004)

### 6.1 The Start-Up of Hua Wo

The first thing that happened after the joint venture had been approved was that the joint venture management had to be selected. Since the joint venture was a factory, which formally was subordinated to the Global Manufacturing organization, a manager from the industrial side: “Jon Andersson”<sup>49</sup> was appointed *President* and *General Manager* (GM). However, even before Jon Andersson had taken up his position, he was questioned by the representatives of the commercial side of the company.

*“Jon’s role is a bit different then. We discussed a lot what a sort of person this should be, what I refer to is that we appoint a factory manager, a person that should be able to run the factory and so on. But in addition this position was to be president for a joint venture, so I had a lot of propositions from ‘the Wise Hill’ here – the headquarters. ‘-It has to be a person that can handle this’, but I said ‘- I will open a factory’. I know that this is a JV and that we have to cooperate with CNHTC. Except that we own this together we have to have access to it, we will take people from them, and we should try to take as good people as possible from them. We should use the painting facilities and we have to be sure of having a dialogue with CNHTC, which is good from the perspective of factory management”.* (Quotation from interview with VTC Global Manufacturing Executive, February 2004, translated from Swedish)

The first task that the new joint venture president undertook when he was installed in Jinan was to appoint the functional managers for the joint venture. CNHTC had the right to appoint a deputy general manager of the joint venture and since the selected manager, Li Yanshou, was industrially experienced, Jon Andersson

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<sup>49</sup> Fictive names has been used for the Hua Wo president, as well as for the other eight permanent members of the joint venture executive committee meeting

appointed him *Production Manager*. Another CNHTC manager, Dong Weiyuan, was appointed *Logistics Manager* and the leader of the trade union, Gao Zhenhua became *Securities and Workers Relations Manager*. Only one Volvo manager became part of the Hua Wo management, namely “Johan Sjöberg”, who was appointed *Financial Controller*.

*“China National was responsible for appointing the Deputy General Manager, who then became Li. Traditionally deputies are only deputies, they are there and then they are only moving around here in China. I talked this through with Li, and especially with Cai Dong, that in such a small company as this will be when we are at full speed and have 160, 180 employees, in the foreseeable future we don’t need anyone that only moves around but we should try to have a job for him as well. So Li took the responsibility for the production, so he is Production Manager, which makes the constellation complete. I am the team leader and Li has production, Dong Wei logistics and then, who holds this together is [Johan]. [...] The leader of the union is also such a role that usually only moves around but that we didn’t think was especially fun either about this we talked mostly Li and I and then we spoke with Cai Dong afterwards. We give this guy a responsibility, so he has responsibility for Security and Workers Relations. Then, since he is very interested in how everything should turn out he also became responsible for maintenance. So these three roles we have given him, to start with.”* (Quotation from interview with Hua Wo President, January 2004, translated from Swedish)

When the executives from the commercial side of Volvo Trucks became aware of the fact that three of the five managers of the new company came from CNHTC, they reacted very strongly. As a result they proposed changes in the staffing of the joint venture, both on the managerial level and on lower levels in the company. A person from the VTGC was sent to Jinan to become *Executive Assistant* to the president; but he returned back to Beijing after only a few days since the Jinan management did not approve of this “assistance” from the Beijing organization. As a result the tension between the two organizations was very high at the first real joint venture board meeting in October 2004.

*“When we started to staff the organization in Jinan it was very turbulent. And I experienced [...] that the biggest problems we had were internal and that was certainly because of the high level of uncertainty.”* (Quotation from VTC Global Manufacturing Executive February 2004, translated from Swedish)

VTGC felt betrayed by one of their own, who in their eyes had given away the hard earned management control to the Chinese partner. The Hua Wo management instead felt questioned and mistrusted.

## 6.2 The Joint Venture Executive Committee Meetings

The start of the new company did not become what Volvo had planned for. As VTC felt that the management control of the joint venture was slipping between their fingers, it was decided that from then on, the management of the joint venture should be coordinated between the different stakeholder organizations. The resulting solution was that a management group, called “*the Joint Venture Executive Committee*” was initiated. The members of this group consisted of Hua Wo stakeholders from different parts of the Volvo organization.

### Content of the JV Executive Committee Meeting

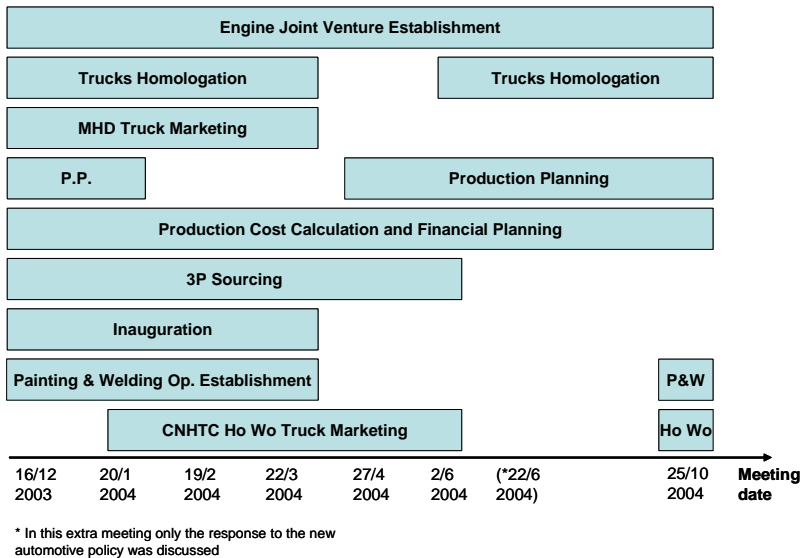


Figure 28: Description of activities of the Hua Wo joint venture executive committee meetings

From the joint venture being established in 2003 until the operations were terminated in 2004, seven joint venture executive committee meetings were held. As these meetings became the arena where the joint venture as such was discussed, I have the meeting as the basis when accounting for the start-up and operations phase of the factory.

During the joint venture executive committee meetings nine broad themes, called strategic activities, were initiated.

In the dissertation, these strategic activities are described in the same order as they were raised in the joint venture executive committee meetings. The first strategic activity, “Engine joint venture”, was the first issue that was raised in the first joint

venture executive committee meeting, and the second strategic activity issue, “Homologation”, was raised next.

I use these activities for a thematic description of the first year of operation of the Hua Wo Joint Venture. Each activity description ends with *Later developments*, which recounts what happened after the committee meetings had come to an end.

### **6.3 Engine Joint Venture Establishment**

*I am not sure that it has been thoroughly discussed within Volvo, and then I am not sure I know exactly where the centre for such a decision lies within the Volvo group. Is it with Leif and the group management team, is it Karl-Erling and Jan van Setten that set the tone, or is it Volvo Powertrain that set the tone in order to enhance the volumes of engines, is it Volvo trucks and the China organization that want the support. I simply don't know.* (Quotation from VTC Executive, February 2004)

The first ideas about Volvo Group starting an engine joint venture together with the Hua Wo joint venture partner, China National Heavy Duty Truck Group Corp. Ltd. (CNHTC) were considered before Hua Wo was approved in June 2003. However, the Volvo Group management decided to postpone all negotiations about future cooperation with the potential partner in the engine joint venture to after the Hua Wo joint venture had been established. It was considered prudent to wait and evaluate the results of the ongoing cooperation before starting a new cooperative project.

For the Volvo Trucks' executives an engine joint venture was a mixed blessing. On the one hand it would provide the joint venture with cheaper engines. On the other hand it would provide the competitors with the same. If Volvo engines were sold to Chinese truck manufacturers one of the major obstacles for them to enter the western automotive markets - the emission standards - would no longer be a problem. Consequently the activity was considered to be of great strategic importance and a matter to be analyzed in depth.

In the summer of 2003, shortly after the joint venture was approved, the real discussions about future engine cooperation started. Informal discussions were held between Volvo Powertrain (the Volvo Group engine business unit), CNHTC and First Automotive Works (FAW), the largest heavy truck manufacturer in China.

The main goals of the engine joint venture were to achieve large volumes and reach a reduced cost base. Another more practical opinion was that if Volvo Powertrain did not cooperate with a Chinese domestic player about engine development and manufacturing in China, someone else (e.g. Mercedes) would.

Still, many of the Volvo Trucks' executives were skeptical about the whole project.

### **6.3.1 First discussion**

In time for the first joint venture executive committee meeting in December, the first round of negotiations about the engine joint venture had been held with representatives for Volvo Powertrain, Volvo Trucks and domestic engine manufacturers in China.

The president of international sales, Carl Stiernström, was worried about the situation. He emphasized that Volvo could not sell engines without majority control. The opinion that the situation had to be closely monitored was shared of all the participants in the meeting.

However, the president of Hua Wo, Jon Andersson, argued that the issue was treated differently by different Volvo stakeholders. He called for coordination efforts when it came to articulating the Volvo Trucks response to the Powertrain organization. As a solution to this it was decided that the issue of the engine joint venture were to be discussed thoroughly in later executive committee meetings; and possibly that a Powertrain executive should be invited to take part in the forthcoming joint venture executive committee meeting.

### **Negotiation**

In time for the joint venture executive committee meeting of January the negotiation process of the engine joint venture had been established. From the commercial side of VTC the process was monitored by Carl Stiernström. From the commercial point of view the two most important issues at this time were that Volvo would be able to control the use of the Volvo brand name, and that the domestic truck companies should not be able to export trucks with Volvo engines.

Also in the meeting of February the engine joint venture was brought up. At this time the negotiation process had gone into a critical state since an agreement between Volvo Powertrain, CNHTC and FAW concerning a letter of intent seemed to be within reach. Now the pressure from the Hua Wo joint venture partner CNHTC on the president of Hua Wo, Jon Andersson, was getting stronger. As a result of this, the Hua Wo president asked for information about the negotiation process in order to know how to deal with the joint venture partner. However, the commercial side of Volvo Trucks was reluctant of revealing any information:

**Jon Andersson** (Hua Wo): *I have just a request when it comes to the engine process. I would like to have some kind of, can I have all of the minutes from the meetings some more updating. Because I'm approached by different people from CNHTC in various questions, I don't know what to answer.*

**Carl Stiernström** (Commercial Side): *I think for now with all due respect I feel that we have a project group now that is trying to accelerate this project and I think the best thing we can do with questions from CNHTC is to refer them to someone, to the project group. That's [Benny and Jacob]. They are all part of the project for the moment. And I think that's answering policy, we should try to keep those answers coordinated. Several letters have been sent where we have been pushed and pressed up on our standpoints in the project, which are fairly tough points from our side. And that's very important that it is only one message given at the time.*

**Jon Andersson** (Hua Wo): *I fully agree [Carl]: but I'm in the situation were I in the JV its stated that we should start to assembly the engines when we have reach the level of 1000 units per year. [...]*

**Carl Stiernström** (Commercial Side): *[Jon] you don't have to worry about that. I know every word in the JV contract by heart. I know exactly what it says in the contract and this group, negotiation group, is well aware of finding a solution which is in line with fulfil also what is written in the JV agreement. So you don't have to worry that we are not take that into consideration – we are very much.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 19 February 2004, (from transcribed MD-recording)

In order to deal with the differing opinions of the Hua Wo president and the commercial side representatives, it was decided that the president should discuss the issue with the Volvo Trucks' engine joint venture group. In reality, that meant that the Hua Wo president had to call the president of Asian and Chinese sales and ask to be informed.

After more discussion and continued pressure from the Hua Wo president it was instead suggested that the president of Asian and Chinese sales, Jacob Wall, would update the Hua Wo president about the current situation. Jon Andersson stated, testily, that he received more information from CNHTC than from Volvo Trucks about the engine joint venture negotiation process.

**Carl Stiernström** (Commercial Side): *I just feel [Jon] that it's better... we are not today in agreement with our JV partner how this engine project should look like. We are for the moment in negotiation with CNHTC with our other partner and with authorities that once will approve this when it's, when we have something that the partners have agreed upon. So we are in an early station*

*Jon Andersson (Hua Wo): I'm very updated [Carl], I'm very updated since I get the information from my other partner from CNHTC and not from Volvo.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 19 February 2004, (from transcribed MD-recording)

With the positive news that the engine joint venture was progressing well, the issue of the engine joint venture was brought to an end during the February meeting. Nevertheless, the differences in opinion between the president of Hua Wo and the representatives from the Volvo Trucks' commercial side still hung in the air during the rest of the meeting.

### **6.3.2 Letter of intent for engine joint venture**

At the time for the meeting in March 2004 the engine joint venture negotiation teams from Volvo Powertrain, CNHTC and FAW had been working around the clock to be able to present a letter of intent for the Volvo Group executives to sign. Since the negotiation process was in a critical state, the executives decided to wait until an agreement had been reached before discussing the issue further.

#### **4. Engine Joint Venture**

The stakeholders of the engine joint venture project have reached an agreement, and a letter of intent has been drawn up. The content of the letter of intent contains a framework for investments and with the objective of achieving a locally produced engine within a few years. The content of agreement is that an engine joint venture between Volvo Trucks, CNHTC and FAW is going to be established in the Shandong province. The exact location of the engine factory is yet to be decided. The plan is to have a legally binding joint venture contract before the end of 2004.

The letter of intent is going to be signed in Beijing Monday 29 of March, close to the press conference, according to the plan. Local production of engines is an important step in order to increase the level of local integration, and cut costs.

**Figure 29: Section of "Minutes from Joint Venture Executive Committee Meeting of March" held 22 March 2004**

### The signing ceremony

29 March 2004 the news that Volvo Group was to establish an engine factory in China was made public in a well attended press conference in Beijing. In the frame agreement, or "*Letter of Intent*", it was stated that a joint venture together with CNHTC and FAW was to be established in order to manufacture engines for Volvo's business areas and for trucks produced by CNHTC and FAW. According to the plans, the definitive agreement was to be finalized during 2004. The engine joint venture would be controlled by Volvo (which would own 52 % of the shares) and CHNTC and FAW would be minority shareholders (with 24 % of the shares each). The plan was that the factory would start production in 2005 and by 2010 the annual production of engines should reach 10 000.



Figure 30: Picture taken at the engine joint venture press conference 29 March 2004

During the signing ceremony four of the members of the joint venture executive committee meeting were invited to take part in the press conference: the presidents of both international, Asian and Chinese sales as well as the VP of Chinese sales attended from the commercial side, and from the industrial side the president of global manufacturing participated. Even though the Hua Wo joint venture was intended to be the largest customer of the engines, none from the Hua Wo management was invited to participate in the press conference.



The press conference had an impact on both the Chinese and western media. During the following week several articles were written about the new engine joint venture.

### **6.3.3 Drafting the engine joint venture contract**

At the JV executive committee meeting of April, the future of the engine joint venture was discussed. After the signing ceremony of the letter of intent in Beijing, the next step was to draw up the joint venture agreement. The issues that remained to be solved, before the parties could reach agreement, were the localization of the factory and the sourcing responsibilities. For Volvo Trucks, the site was important since the engine joint venture would be supplying the Hua Wo joint venture with engines. However, the VTC executives were not convinced that the new factory had to be located in Jinan. Most executives considered Qingdao, a seaside port, to be a better choice. Nevertheless, the members of the Shandong government had already declared that the joint venture would be localized in Jinan:

*Jacob Wall (Commercial side): There are a lot of discussions about the localization of the factory and there 3P and Powertrain are conducting an independent study, they use a consultant agency in order to conduct an independent study of the Shandong province. And that none of the others are aware of, so to say, that this is happening. But it didn't take more than something between 20 and 25 seconds before CNHTC brought it up and Mr. Ma said that it should be located in Jinan when they had their meeting.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 27 March 2004, (from transcribed MD-recording)

### **6.3.4 New conditions –new automotive policies**

In May and June 2004 respectively, two new automotive policies were published that greatly influenced the entire Chinese automotive market. The first policy contained detailed instructions for actors in the automotive market. The second policy regulated vehicle weight and axle load for trucks allowed to drive on Chinese roads. As the second policy was issued shortly before the meeting on 2 June, the executives had not yet grasped the full meaning of the regulations. As a result it was decided to call an extra meeting later in June.

The first sign of the impact of the new policies was the difficulty to forecast the need for locally assembled engines. The president of Asian sales, Jacob Wall, brought this up in the 2 June meeting:

**Jacob Wall** (Commercial side): [Carl], can I just ask for, it was in the mail I sent this morning because Stanley replied back yesterday that we can not supply volume information until earliest mid summer, due to internal discussions within VTC about different scenario ratio. You know the discussions we had last week, I had, I just we need to give some kind of indication [Carl]. The risk is otherwise that they have to do it themselves here. They are sitting here and have weekly or quite frequent meetings with their partners and we need to give at least some kind of indications that we can sort of change later. [...]

**Carl Stiernström** (Commercial side): I will do that. I think also Sven needs to have some respect that our volume assumptions can fluctuate a lot (understatement) depending on various scenarios with product, possible product plans in the future.

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 2 June 2004, (from transcribed MD-recording)

The next issue also involved engines. Volvo had promised (as part of the engine joint venture negotiations) CNHTC 400 engines in order for them to conduct different kinds of test. Since the executives did not foresee any great demand from Volvo Trucks in China for engines, they agreed on the importance of reducing the expectations from CNHTC. Once again it was stated that it was vital for Volvo to control which trucks would receive the engines.

**Carl Stiernström** (Commercial side): There is one issue there we brought up the last time and that is the issue of the 400 Volvo engines that we have, we have promised it says in the minutes, and we have had discussions with CNHTC to provide them with some engines prior to the factory directly shipped from Skövde in order for them to do some testing and installation. I also want to say that I understand that CNHTC is very eager now to fit those engines into trucks like tomorrow in order to be on some bloody exhibition in the end of the year and show this for the world and the customers, and we are two years away from an engine manufacturing plant. So I think we need to cool down CNHTC and I must say that I don't think there will be any discussions of providing any engines to CNHTC until we have an agreement to start with. I think it was very clear in the draft document we had with CNHTC that following the agreement we have discussed to give them some pre engines for them, but I think they need to revise the very ambitious plans of having trucks on exhibitions in the end of the year with Volvo engines in. And Volvo cab, they could have the Volvo cab but the engines, we have to handle this carefully

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 2 June 2004, (from transcribed MD-recording)

### **6.3.5 Later developments**

The plans for an engine joint venture were never finalized and in December 2005 Volvo's decision to terminate the engine partnership with FAW and CNHTC was made public.

After the new automotive policies had been issued, the situation for the engine joint venture became critical. Volvo Trucks no longer needed large quantities of engines for its future China expansion. The FAW decision to withdraw from the project was the final fatal set back for the project. By this time VTC was conducting negotiations with FAW's worst competitor in China, Dongfeng Motors, something that may have speeded up the termination.

## 6.4 Homologation

*“Sometimes I wonder: Are we a truck company with a legal department or a law firm that happens to produce trucks?”* (Quotation Hua Wo Executive November 2003, translated from Swedish)

The second activity discussed during the joint venture executive committee meetings was the homologation process. In order to be able to manufacture trucks in China, a joint venture had to homologate their product, which in practice meant that the products had to be approved by the relevant government officials.

When the issue of homologation was brought up, the responsibilities between the partner organizations had already been up to discussion, and decided upon, in the *Second Joint Venture Board Meeting* which many of the Volvo executives attended<sup>50</sup>.

### 6.4.1 First discussion

The homologation activity had been discussed as early as in the December meeting. From the beginning, the importance of Volvo’s involvement was pointed out. This importance was especially emphasized by the president of Hua Wo, Jon Andersson. In this meeting he told the executives that Hua Wo had already received support from the Chinese partner, CNHTC. If everything worked according to the plan, Hua Wo would be able to achieve an approval of its manufactured product. This approval would result in Hua Wo being put on the list with approved manufacturers published by the Chinese governmental authorities.

All of the participants in the joint venture executive committee meeting were skeptical to the positive account. Several of the representatives from the commercial side (the presidents for International, Asian and Chinese sales) were hesitant about relying on the Chinese partner in this matter. As a result it was decided that the Hua Wo management team were to work closely with the Volvo Trucks Greater China (VTGC) organization with the homologation from that point on.

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<sup>50</sup> The Second Joint Venture Board Meeting for Jinan Hua Wo Truck Cooperation was held in the Hua Wo Truck Conference Room in Jinan 8 of October 2005. Directors participating were Cai Dong (Chairman), Wang Shanpo, “Kent Svensson” and “Jacob Wall”. Non voting delegates that participated were “Jon Andersson”, “Gunnar Eriksson”, “Li Yanshuo” and “Benny Wen” (see *Figure 3* for titles of JV executives).

### The approval of the distribution agreement

In the January meeting the joint venture executives were updated with the recent development, firstly with regards to the status of the homologation activities and secondly with the recent approval of a distribution agreement<sup>51</sup>:

*Carl Stiernström (Commercial Side): If we continue with this homologation process and let Jon tell us what has happened.*

*Jon Andersson (Hua Wo): The following has happened, as I have already mentioned, that we have passed the technical evaluation. That was done in a meeting in the middle of December. That is one part of it, but then we must be approved as manufacturer as well. That process is the one that takes a fair amount of time, normally up to three months. So, what we do is lobbying to get the homologation we need.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording), translated from Swedish

Since the December meeting a distribution agreement had been approved that made Volvo Trucks the sole distributor of the trucks produced by Hua Wo. As a result the homologation approval was the only obstacle left for Volvo to sell trucks to the Chinese market.

*Carl Stiernström (Commercial Side): [Jon], is it some type of license that you need then, or what?*

*Jon Andersson (Hua Wo): Yes, yes it is sort of factory license, basically. That it is approved, and not only that the product is approved but also the factory that has manufactured it.*

*Carl Stiernström (Commercial Side): The trucks are technically approved?*

*Jon Andersson (Hua Wo): Technically the trucks are approved, we have three basic models that we have discussed together with the Beijing office that from a technical point of view are ready to sell.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording), translated from Swedish

#### 6.4.2 The minutes from the JV Board meeting

In February 2004 the next contribution to the discussion about the homologation process came through the minutes from the joint venture board meeting. These minutes covered the rights and responsibilities of the homologation process and were sent to Jacob Wall (director of the Hua Wo board) for approval.

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<sup>51</sup> A prerequisite for achieving homologation

The first version that arrived, however, was full of errors. In the board meeting minutes several things were discussed that have already been regulated in the joint venture contract between Volvo Trucks and CNHTC.

As a result, the president of Asian sales, Jacob Wall, reverted to the CNHTC representative Wang Shanpo with comments. In the mail he sent he underlined the importance of “*describing more clearly who has the homologation responsibility*” (Quotation from e-mail sent to Wang Shanpo 21 of January 2004). In his response (dated to 30 of January 2004) Wang Shanpo did not warm to this suggestion. Instead he proposed to change the wording to “*due to complexity, the Board Meeting decided the VCIC should supply the homologation documentations at the Changchun test center to JV*” (Quotation from e-mail sent to Jacob Wall 30 of January 2004). However, the president of Asian sales was not happy with this wording and replied that the minutes should “*reflect who has the overall responsibility for the homologation*” (Quotation from e-mail sent to Wang Shanpo 3 of February 2004). As a result to his comments the *second proposal* of joint venture minutes for the Second Board meeting arrived 12 of February 2004. This issue, however, was not attended to until several days later.

### **Homologation intermission**

When the joint venture executive committee meeting was held 19 of February 2004 an agreement with CNHTC about the wording of the homologation issue in the board meeting minutes had still not been reached.

The situation for Hua Wo was severe, since Hua Wo could not get any material out of the customs office. The president of Hua Wo, Jon Andersson, was frustrated by the situation and wanted Volvo Trucks to sign the board meeting minutes as soon as possible. In order to be able to start the assembly activities again, the goodwill and support of CNHT was needed, he argued.

An exception had been made from the customs authorities during January, giving the result that material had been released to Hua Wo, but in February the patience of the customs authorities had been stretched to the limits.

*Jon Andersson (Hua Wo): We are sitting here and waiting because we have had a lot of help from different sources, China National, [Benny] and so on. We were able to release another kit so we have built another 12 trucks, but now just yesterday I was down in Qingdao and talked to the customs authorities and they are now in a very, very squeezed position. They would like to help us, but they don't dare to help us for the moment. But we are working on the Ministry of Commerce Cai here and China National and also Benny is working on that.*

**Carl Stiernström** (Commercial Side): *Yes, but can I – just for my own understanding: are we talking about two different issues now; one is homologation of the products which means that we are coming out on some CD disc which means that the customer can register the truck. That's one area and the other area is to be registered as a manufacturer which means that you can realise ... that's two different approvals.*

**Ole Johannesson** (Commercial Side): *And that's okay I think?*

**Jon Andersson** (Hua Wo): *They are in a way connected so if we are getting this official approval we also get the licence for importing material.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 19 February 2004, (from transcribed MD-recording)

Since the issue had not been satisfactorily resolved, the president of International sales, Carl Stiernström, emphasized the importance of being informed if the Hua Wo becomes aware of any delay of the homologation. Still the dead lock with the different opinion of the wording of the board meeting minutes remains.

Åsa Käfling, currently in Gothenburg, was asked to read through the second proposal of the joint venture board meeting minutes and give her opinion about the contents. In her answer to Jacob Wall she especially highlighted how the responsibility for the homologation issue has shifted from Hua Wo (and CNTHC) to Volvo if comparing the minutes with the joint venture contract. When Åsa Käfling had returned to Beijing again she was asked to go to Jinan, in order to solve the problem and in co-operation with the joint venture management team re-write the joint venture board meeting minutes.

The management team of Hua Wo accepted this suggestion, even though they at the moment were facing serious problems as a result of the delay of the homologation. During the inauguration, Hua Wo planned to assemble trucks to show the day-to-day activities. Now the factory had ran out of material and the production managers were starting to prepare to disassemble already assembled trucks, in order to be able to re-assemble them in front of the audience

When Åsa Käfling arrived in Jinan on the 11:th of March 2004 both Jon Andersson and Johan Sjöberg, (the financial controller), spent several hours together with her to re-write the minutes. In the end a suggestion was presented to, and approved by, CNHTC. The day after the concerned parties had been able to accept the wording of the new second board meeting minutes the homologation was approved by MOFCOM (Ministry of Commerce).

### 6.4.3 The homologation process successfully finished

In time for the March meeting, the homologation activity was consequently finalized. In Jinan the production of trucks had been delayed, but the Hua Wo president was confident that most of the delay could be compensated for.

*Jon Andersson (Hua Wo): Yes and there we have, after much work and effort from different actors, and help here and there, succeeded to get this through and we have officially six number of trucks and three number of complete vehicles registered. [...]*

*Carl Stiernström (Commercial Side): So, now we are able to import this material, and we are able to sell to VCIC, and VCIC has its distribution contract so they are able to sell it to the customers – so the chain is closed now.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 22 March 2004, (from transcribed MD-recording), translated from Swedish

In the March meeting the result of the homologation process was discussed. For Hua Wo it was possible to assemble trucks again, and for Volvo Trucks (as a result of the approval of the distribution agreement) it was possible to sell the Hua Wo assembled trucks. The future seemed bright for the Hua Wo joint venture, and the joint venture executives were in agreement that the homologation issue had been satisfactorily solved.

### 6.4.4 Starting the homologation process all over again

In June the new legislation concerning the weight and axle load for commercial vehicles in one strike changed the situation for Volvo Trucks' Chinese operations. Since the technical specifications of the trucks had to be changed, all Volvo manufactured trucks had to be re-homologated. When the issue was raised, once again, in the joint venture executive committee meeting in June, the frustration of the joint venture executives was easily seen.

*Jon Andersson (Hua Wo): We will not be able to re-homologate all the trucks this month. But we have decided together with Hudson and Simon who was down here the other day that we should select five of the old trucks to put in this month to get them re-homologated in September. And then we have to select what's coming for the future, for the July application.*



**Benny Wen** (*Commercial side*): *So, I hope everyone understand because our trucks just coming out from the JV whatever homologation we have had before on the CBU actually have no use, we need to re-homologate based on the new axle pressure requirement that has, the law, that was released May first, suddenly.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 2 June 2004, (from transcribed MD-recording)

Since the new regulation was approved a large stock of trucks had been built up outside the Hua Wo factory, trucks that could not be sold unless re-homologated. The first action to undertake was hence to re-homologate them. This time it was the VP of Chinese sales, Benny Wen, which was appointed to take care of re-homologation process.

#### **6.4.5 Later developments**

The result of the delay of the homologation influenced the production processes for the whole first year of operations.

Most critical was March when planning the grand inauguration of the factory. Since the homologation approval came by the middle of March, it was unclear if there would even be any trucks to assemble during the inauguration.

In the end it turned out that the delay in truck production as a result of the slow homologation process was of minor importance. The new weight policy legislation, that forced Hua Wo to re-homologate the trucks, also made the Volvo trucks so expensive (in relationship to their loading capacity) that they were impossible to sell. In the end the result was that the stock of material that had been locked into the customs offices instead became a stock of assembled, unsold, trucks in the parking lot outside the factory. In the end of 2004 almost all of the operations were terminated, and during 2005 only 150 trucks were assembled.

In December 2005 the homologation issue became problematic once again. The forecast for the year 2006 was only 380 trucks, but despite the few trucks assembled, homologation of new truck models was required in order for Hua Wo to continue its operations. Lack in communication about engine specifications between the Hua Wo joint venture and the VTGC organization, nearly resulted in that the factory had to close yet another six month.

**Jon Andersson:** *We were not informed that it should, so to say, disappear - the D12. The very same day, or in week 49, the manufacturing of D12 was stopped, and then the production of D13 was started. For us to manufacture trucks we have to homologate the trucks in order to get the licenses; and that is a pretty long process. [...] Then we found ourselves in the situation that we could not even get the material to these homologation trucks out.*

**Åsa Käfling:** *So it was the same thing all over again?!*

**Jon Andersson:** *This was much worse, it was even more critical because this had resulted in us standing still in six months with completely functioning routines. For every truck, homologation truck, it was decided in these central Swedish program meetings, every unit has taken out they have to take the whole cost themselves. This meant that those prototypes that were needed for homologation would cost around three, four million and more, each! And we need quite a few. Then we were sitting here and thinking a number of people and actually a night when I was laying in bed and thought of this I found the solution. We would do it like this: we specified all the unique material and that we took out in week 49 and packed and sent by plane here. Then we mixed it with an earlier shipping with common material. We could not take out only the material we wanted but we took out whole trucks; and what was common we sent by boat in week 49, and the common material we collected from an earlier shipment. The unique FM 12 material we later combined so it became "old" trucks. So it was an interesting logistic challenge, but we succeeded, we got trucks out from here in two weeks time. We were probably the first CKD factory that built these trucks; we build them 2 of January, trucks that had been packed in cases 15 of December something. So we got them out, homologated them and sent them in January and we will have them approved in March. (Quotation from interview with Jon Andersson 16 February 2006 translated from Swedish)*

When the Hua Wo management got the information about the new engine specifications they managed to exchange the old engines of the current truck kits with new, and homologate these. This procedure warded off the immediate risk for closing of the factory.

## 6.5 MHD Truck Marketing

*What I hope for is that a joint venture perhaps could lead to the manufacturing of a much simpler truck, more adapted to China. Otherwise I don't think that these volumes that we discuss will be reached.* (Quotation from VTGC Executive March 2004, translated from Swedish)

One of the main strategic goals for the establishment of the Hua Wo joint venture was the aim of selling 10 000 trucks 2007 in the Chinese automotive market. Since the Chinese market for trucks was dominated by lighter commercial vehicles, one part of the strategy to reach higher volumes was to introduce a Volvo medium heavy duty truck (abbreviated MHD truck).

The introduction of a smaller Volvo truck into the Chinese market was driven by the commercial side as a possible means of reaching the highly set volume goals. Since the Chinese market was dominated by lighter commercial vehicles, the Asian sales managers saw the introduction of a medium heavy duty truck as the only realistic solution.

A MHD truck<sup>52</sup>, designed and manufactured in Brazil and marketed in the South American markets, was identified as a possible candidate both for India and China. This truck had a cost base which was substantially lower than the other range of Volvo trucks.

In the fall of 2003 the preparations to introduce the MHD truck was in full swing. According to the initial plans 100 trucks were to be assembled already in 2004, with another 50 ready-assembled trucks being imported. Towards the end of 2003 workshops were held in Gothenburg in order to secure support for the project. Activities discussed during these work-shops were the adaptations to the original truck that were needed, as well as which segments to address in order to minimize the risk of over loading of the trucks.

The MHD truck case was consequently already thoroughly gone through in time for the first joint venture executive committee meeting in December. At the same time as the details of the introduction was addressed in the executive meeting, the commercial side worked with internal approval towards the different Volvo stakeholders.

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<sup>52</sup> The name of the truck has been changed to "MHD-truck" for anonymity reasons

### 6.5.1 First discussion

In the December meeting the MHD marketing activity was discussed, with regards to the different procedures that the MHD truck had to go through. Two issues related to the MHD truck introduction were discussed: Firstly the homologation of the imported (CBU) trucks was appointed to the VP of Chinese sales, Benny Wen<sup>53</sup>. Secondly the president of Hua Wo, Jon Andersson, was reminded of responsibility for the homologation of the CKD trucks.

### 6.5.2 Clarifying the legal setting

To be able to introduce the MHD truck the legal framework had to be analyzed and it had to be clear for Volvo Trucks if any further approvals were needed. Specifically the question whether the joint venture business scope had to be amended was discussed. Since the issue was brought up by Jacob Wall, president of Chinese and Asian sales, it was appointed to him to find out the answer. Benny Wen, the VP of Chinese sales, regarded as having broad knowledge about the Chinese political system, was appointed to assist Jacob Wall.

This issue of the MHD introduction was driven by the president of international sales, in the meeting. The background was the price sensitivity of the Asian markets:

*“How can Volvo avoid being the brand everyone wants to purchase but no one can afford?”* (Quotation from VTC International Division Executive December 2003, translated from Swedish)

In the January meeting, the activity was discussed as a follow up point. Since Jacob Wall had been appointed as responsible for the process of business scope amendments in the December meeting, he was asked to report about his opinion on the issue of MHD truck introduction. However, this responsibility, and the right to delegate this issue, was now called into question by the president of Hua Wo:

***Jacob Wall** (Commercial side):* What we have done here, [Carl], from our side is that Åsa has been in contact with Baker and so on. It should be okay it seems these parts. I just want to have it in written from them, but they have said on the phone that this amendment of contracts and business scope should be okay. But any way I want to have it in written so to say. But it looks green.

***Jon Andersson** (Hua Wo):* There we have, to take it from the beginning and discuss the detail questions, very many cooks to this soup. So I have been assumed responsibility, I have got mail from different people here. As I understood it, [Kent], wasn't it Leif from us (the industrial side) that should keep this together?

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<sup>53</sup> The president of Asian sales, Jacob Wall, was president also of Chinese sales

**Kent Svensson** (Industrial side): *Yes, and I also know that you and Per Ryttsling in Brazil have begun to discuss the level of localization. One question that I have, which are the volumes that we have when we talk about MHD?*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording)

It is clear that Jon Andersson had liked the MHD introduction to be treated as an industrial issue: since it would influence the industrial side when it came to planning of packing and production. In the same way the commercial organization (VTC International Division) viewed it as a strategically important market related issue. However, the stand of the Hua Wo president was not supported by the other executives in the meeting.

In the joint venture executive committee meeting of January the relationship with CNHTC was brought up, by the Hua Wo president, in regards to the MHD truck introduction.

This discussion was called for, as the result of different standpoints between the Hua Wo president and the representatives from the commercial side. Since the volume plan for the MHD truck had been scaled up (Internal documentation: "VTC Business Case Model 2004" by O. Johannesson) the issue had become more urgent.

The president of Hua Wo, Jon Andersson, wanted to inform CNHTC about the introduction plans; arguing that it would be impossible to keep it a secret since Hua Wo soon had to start preparing the factory for the different technical specifications of the MHD trucks, as well as for the increase in volume. However, this opinion did not get any support from the VTGC representatives.

**Jon Andersson** (Hua Wo): *What I would like to know one thing only. Have CNHTC been informed about the project. [...] I think it is good to inform them before we start our preparation to take care of [the MHD truck] because we are living next door to them.*

**Jacob Wall** (Commercial side): *They don't inform us very much when they do thing either so I'm not saying that we should fight them – I am not saying that but we don't have to be chairman of the Scout community either. We can play a little bit how we like it.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording)

The decision that the commercial side had the responsibility to inform the CNHTC board about the MHD introduction was taken informally in the meeting.

However, later on in the meeting the issue was brought up once again when the status of the factory was discussed. This time the president of Asian and Chinese sales, Jacob Wall, suggested a meeting with the Hua Wo president, in order to discuss the matter:

**Jon Andersson** (Hua Wo): *I feel a little bit... eh... since we now have to start working with the [MHD people] to prepare for the [MHD truck] and that's my organization and they should. I'm not talking about linkages but they have the knowledge what we do.*

**Jacob Wall** (Commercial side): *[Jon] – why don't we do it like this: When you come back let's have a discussion over the phone. You, me and [Benny] and we will resolve that issue.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording)

The MHD truck introduction was not discussed further in the January meeting, apart from indirectly when discussing the product cost calculations.

### 6.5.3 The lawyers remain silent

In the February meeting the issue of the scope amendment was brought up again. The responsibility of the contract status had been delegated to Åsa Käfling by Jacob Wall.

Despite frequent reminders, and several promises, Åsa Käfling had not been able to get a formal written opinion from the lawyer firm on whether or not any changes of business scope was needed for MHD introduction.

**Åsa Käfling**: *I went to Jinan and the board resolution is signed by all parties so it went very smooth and now it's at Baker & McKenzie's. So that is already done. When it comes to amendment of business scope – we don't have to do that. I spoke to Ma Jün today and she will send a formal affirmation as well today*

**Carl Stiernström** (Commercial side): *What was the reason?*

**Åsa Käfling**: *It was the [MHD truck] introduction.*

**Carl Stiernström** (Commercial side): *Because it said FL? But we did not have to?*

**Åsa Käfling**: *We don't have to do that, but we have to register at SDRC. So we still have some actions, it's not a big deal. We will have this formally sent to us today.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 19 February 2004, (from transcribed MD-recording), translated from Swedish

### 6.5.4 Informing CNHTC about MHD truck introduction

The next time the MHD truck introduction was discussed was when the outcome of the meeting between VTGC and Hua Wo was to be reported. In the telephone meeting Jacob Wall and Jon Andersson agreed on arranging a meeting together with Cai Dong, the chairman of Hua Wo from CNHTC. However, at the time for this meeting Jacob Wall was prevented from attending and sent his deputy Benny Wen instead. In this meeting with Cai Dong, Benny Wen briefly explained Volvo's market related objectives with the introduction and Jon Andersson told the chairman about the influence of the MHD introduction on the Hua Wo manufacturing operations:

*Jon Andersson (Hua Wo): Yes, we met there – we decided to have a meeting there all three of us but by different reasons we were only two down here, to say, and checked with [Jacob] afterwards. [Benny] and I had talked together about how to run this and we and [Jacke] were in agreement. It only took one minute. Then we run it pretty straight forward, [Benny] told about the thought behind this and in addition we also talked about the industrial part of this. It was nothing really; he said when we got into this, that Åsa mentioned before about this, amendment for MHD, that we don't need it – we can to it anyway. He was very, very positive towards it – that this is a thing that will fix things and it will get the JV running.*

*Carl Stiernström (Commercial side): It's amazing (mockingly) that they are so positive to create a competitor! But maybe they don't look at it like that?*

*Jon Andersson (Hua Wo): They don't look at it like that!*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 19 February 2004, (from transcribed MD-recording), translated from Swedish

### 6.5.5 MHD-truck is put on hold

In the March meeting the situation had changed dramatically. In a meeting between three commercial side executives, about two weeks before the March meeting was held, the decision to terminate the project was taken. Other stakeholders in Sweden, South America and China were informed the following day by e-mail. In this mail, dated 10 of March 2004, it was explained that the project had been “*concluded to be unacceptable and therefore a decision has been taken to ‘stop’ this project immediately*” (Quotation from mail sent by Dennis Morgan 2004-10-03); and that the decision would be made official the following day. In the e-mail the stakeholders from other organizations than VTC ID were asked firstly to stop all the project expenditures. Secondly the stakeholders were asked to determine the project costs already spent on the MHD truck introduction, and to inform the commercial department about them. The MHD trucks that had already been sent to China were to be used as test trucks. Finally, all stakeholders

were asked to closely study and assess the Chinese market segments for new products.

In the executive meeting of March, the president of Asian and Chinese sales explained the main arguments for bringing the MHD project to an end:

**Carl Stiernström** (Commercial side): *Okay, then we move on... [MHD truck] Introduction, [Jacke]!*

**Jacob Wall** (Commercial side): *That will go rather quickly (laughing) – it became nothing! It is not funny to laugh at but now, right now anyway, the cost is on the wrong level. Unfortunately, when we looked at this; the volumes were too small and the risks too high. So together with you Carl we took the decision not to go through with it, the volumes being too small that is, but instead focus on the next generation or the next upgrading of [the next MHD truck] that will come in the end of 2005.*

**Carl Stiernström** (Commercial side): *That gives us about half a year to make the [next truck] a good project and that we hopefully have a good level of localization of the project from the first day, and not the least that we have solved the engine strategy in the project. Finally it was two things that made us take this decision: the first is that the volumes became too small when we got a reasonable price level to cover the increasing cost – and bearing in mind that it is a Brazilian engine we thought that it is not decent to introduce this in so small volumes in question, a few hundred trucks. As we then will have another engine in the [next truck].*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 22 March 2004, (from transcribed MD-recording), translated from Swedish

The statements from the commercial side were not called into question by the other participants; and after these remarks the issue of the MHD-truck introduction was not discussed again in the meeting.

### 6.5.6 Later developments

In March 2004 the MHD truck project was suspended. The two main reasons being that the cost had become too high, and that the project was too risky. Many of the managers of the commercial side of Volvo Trucks regretted the way that the project turned out:



*The [MHD] truck project is a classical example of where Volvo is under complete threat. The MHD truck project is a project where we wanted to source globally, from Brazil, because we thought that the cost of the project was going to be driven down because it adds volume and it's coming from a low cost production base. Classic example within Volvo, but I think we screwed up. [...] I think it got too expensive, I suspect it got too expensive not because of the product, the cost of the product can only go down when we are adding volume, I suspect the cost of the product got too expensive for China because somebody else is trying to get a bigger portion of the pie. (Quotation from VTC Area Asia Executive March 2004)*

After the drawback with the MHD truck, discussions were held within VTC in order to find other suitable products for the Asian markets. In the quarterly held management meeting of the managing directors from the Asian markets the importance of “the Chinese Volvo” was highlighted. Even if all the markets within Area Asia wanted a cheaper and lighter truck the demand was greatest in China and India.

To introduce new products to the Chinese market might also be more complicated than both the Volvo Truck Commercial organization and the lawyer firm had anticipated. This was one of the reasons why the lawyer firm's formal opinion on the matter became delayed. A few days after the decision to stop the introduction of MHD truck, the legal firm finally came with their verdict. The question of whether an introduction required any approval could not be answered since the Chinese law was not clear in this respect. The recommendation of the lawyers was instead to have informal discussions with the officials from the State Development and Reform Commission (SDRC) which was in charge when it came to introduction of new products into the Chinese market.

If the external circumstances were more complex than the Commercial side had predicted, the internal support might also have been too weak to go through with the project. To have different types of trucks for different markets was a sensitive issue within the Volvo group. When a representative for the Volvo Group management team was presented with the idea of “the Chinese Volvo” his reaction was clearly negative:

*“No, we will not have any unique products for China. We don't live with different technologies, we live in one technology. There have been suggestions that we should have some kind of second hand technique both in Iran, India and in China, but we will not have that.” (Quotation from Volvo Group Executive April 2004, translated from Swedish)*

As his remarks suggested it is possible that the support from the stakeholders in the different Volvo organizations maybe was not as strong as anticipated in the early days of the project.

## 6.6 Production Planning

*“The first Volvo trucks sold in China were delivered already back in 1934. The export drive to China was renewed in 1997 and last year, Volvo sold just over one thousand trucks there. Within the next few years this figure is expected to rise to 10,000. The factory will initially build the Volvo FM models. The industrial expansion is being paralleled by continued efforts to develop the dealership network.”* (Section from Volvo Trucks Inaugurates Factory in China - Volvo Press Release 31 March 2004 by Claes Claeson)

The first important fact to keep in mind when discussing production planning, both for Volvo Trucks in China and Hua Wo in Jinan, is that from the very start existed several different volume plans. The differences in volumes in these plans were not first and foremost a result of differences between the stakeholders, but rather a result of different scenarios for the same stakeholder. In the press release published the day for the inauguration of the Hua Wo factory (see quotation at top of page), the aim to have reached 10,000 sold trucks annually within a few years time on the Chinese market was expressed<sup>54</sup>.

### 6.6.1 Commercial plans for a bright future

A volume plan based on a cautious scenario, where about 1,000 trucks were to be produced in China 2008, was shared by Hua Wo, the industrial side of Volvo Trucks and the commercial side of Volvo Trucks. These volumes were official and communicated to the different stakeholders of the Hua Wo factory. (Internal documentation: “China CBUCKD official vol plan” by R. Lind)

At the same time other volume plans circulated where the more optimistic ranged to about 7,000 China manufactured trucks in 2008. In this volume plan the volumes for the medium heavy duty truck, MHDT, were included. According to this plan the maximum capacity in the Hua Wo factory, about 2,500 trucks would be reached by the end of 2005 (Internal documentation: “Unofficial Volume Plan 2004-2008 CBU CKD” by R. Lind). Consequently, the joint venture executives were from the very start up aware that the factory would soon be too small

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<sup>54</sup> In the main contract, the number of trucks to be produced in, and sold to, the Chinese market is more elaborately expressed. In the fourth article of the contract, “*the Purpose and Scope of Business*”, it is stated that Hua Wo would produce 2500 trucks by the year 2005 and would have reached an annual volume of 10,000 truck by 2008.

### 6.6.2 Hitting the production capacity roof?

Thus the first matter concerning production planning that was raised in the joint venture executive committee meeting was about actions to be taken when reaching maximum capacity in the Jinan factory. This issue was brought up by the president of international sales, Carl Stiernström, during the meeting in December. It was decided that the activity should be followed up in the January meeting.

However, in January the discussion about production capacity became somewhat confused since none of the executives had the latest production plans at hand.

**Ole Johannessson** (Commercial side): *I did not bring any figures, we do have quite a lot, it should be produced at least 4 to 500 in autumn and next year the rate is about 650 to 700 per period, which means 2005*

**Jon Andersson** (Hua Wo): *Taken the whole production together?*

**Ole Johannessson** (Commercial side): *Yes, it is only a few CKD from Sweden. 2400 of that sort of vehicle*

**Carl Stiernström** (Commercial side): *That sort?*

**Kent Svensson, Gunnar Eriksson and Ole Johannessson**: *No*

**Kent Svensson** (Industrial side): *Hold on chaps, we have 800 in the program now. That is our FM, right? [...]*

**Jon Andersson** (Hua Wo): *Now you must separate, when you are talking, between program and program here. When you talk about packing program that is one thing, and when you talk about production program that is another thing.*

*[...]*

**Jacob Wall** (Commercial side): *But I think that before we move into the details, it's the same thing every time. Now I don't have this in front of me, but in another meeting it would be good if we could have the latest production program, because that is what we all use in our calculations. We should have it in front of us so we know exactly what the volumes are. So we include it to the sent out material or something like that..*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording), translated from Swedish

The importance of the volume plan was highlighted, as the executives had to start preparing for actions taken when the factory would be too small to fulfill their needs:

**Carl Stiernström** (Commercial side): *I only want to establish the fact that according to the rough plan, we will have our need covered in Jinan 2005 where after we will probably hit some sort of ceiling. Is that right?*

**Jon Andersson** (*Hua Wo*): *As the situation looks right now we have that capacity, yes. We have not planned fully, and it is probably something like 100 trucks, depending on the different sorts. [The MHD truck] is a bit easier to build than the FM which means that we will have more of a sequence building organization*

**Kent Svensson** (*Industrial side*): *But on the other hand, [Jon], that means that we have to start looking at alternatives in the end of this year.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording), translated from Swedish

Since there was immediate need for more capacity (especially bearing in mind the homologation difficulties) it was not surprising that the issue of increased production capacity was not discussed at all during the February meeting.

### **6.6.3 Production planning after MHD introduction is stopped**

In the March meeting production planning was raised as a result of the termination of the MHD truck project. In this meeting it was the representative from the Volvo purchasing organization, 3P, who brought the production planning up. Since the plan was to manufacture only a very small number of MHD trucks during 2005, the termination did not influence the overall volumes. In 2006 there was a bigger difference, since a large part of the calculated trucks were MHD trucks.

Even though the MHD truck introduction was terminated, the executives of the joint venture meeting were aware of the fact there still was a larger demand for medium duty trucks than heavy duty trucks, in the Chinese market. As a result, they planned to introduce another medium heavy duty truck in the beginning of 2006 which would serve as substitute for the originally planned MHD truck. Since this truck was a concept truck, which had not been produced as yet, there were still great levels of uncertainty attached to it – which also influenced the production planning.

### **6.6.4 Two new regulations that turn the market upside-down**

In May and June 2004 two new regulations having an impact on Hua Wo were issued. One of these new policies concerned vehicle weight and axle load of commercial vehicles, whereas the other focused on the structure of the automotive industry.

In time for the meeting in June the first results of the axle load and vehicle weight policy had been noticed, since many of the customers cancelled their orders. In the new regulations, the maximum vehicle weight for a three axle truck (like the FL trucks that were assembled at the Hua Wo plant) was 25 ton. The FL trucks were

built to have a gross vehicle weight on about 40 ton. Since their vehicle weight was relatively heavy, they became uneconomical.

This led to a large stock of unsold trucks in Jinan. When the joint venture executives in Gothenburg got to know about this, they were very worried. They decided to stop the packing of kits to the Jinan factory:

***Kent Svensson** (Industrial side): How is the situation when it comes to finished goods? [...] The total pipeline so to say*

***Jon Andersson** (Hua Wo): The latest information I have, I don't have the exact figures for, that is not direct our responsibility but I heard some 60 to 70 units*

***Kent Svensson** (Industrial side): That means that the total pipeline is close to 250 trucks then?*

***Jon Andersson** (Hua Wo): Consolidated Volvo yes.  
(quiet)*

***Jon Andersson** (Hua Wo): Those are the figures, but as [Jacob] just mentioned there are reasons, the new policy that came out some weeks ago has definitely affected the trucks that we are building.*

***Kent Svensson** (Industrial side): As I understand [Jon], we continue to build these trucks*

***Jon Andersson** (Hua Wo): They are in pipeline, from what I understood from the new policy they can still sell and use these trucks up till beginning of April next year. But with limited load capacity after April, but then it's a matter of over specified trucks of course.*

***Kent Svensson** (Industrial side): I was just wondering if there are any reasons, can we stop the packing of this kind of truck in order to lower the inventories?*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 2 June 2004, (from transcribed MD-recording)

### **6.6.5 Changing the product mix as result of new legislation**

Later, in June the extra joint venture executive meeting was held. This time the true meaning of the policies had started to sink in and all the executives were frustrated, and worried about the situation.

The first issue that was brought up in the extra meeting was how to react to the changes in legislation. The possibility of reducing volumes was discussed, and the current status of production.

**Carl Stiernström** (Commercial side): *I would like to propose that we ask [Jon] to just give a short status report about the production situation, then I would like to discuss very briefly and understand how the program process is now functioning and the discussions that you have locally, especially then with respect to the problems that we are now in the middle of with the new weight regulations for tippers and mixers. We feel that we have this situation under control... so if I let you [Jon] come in and just give you view on the, the manufacturer, the assembly situation today and also comment on the program process and the discussions around the, what actions we are now taking in order to have the situation with new regulation*

**Jon Andersson** (Hua Wo): *Yes, okay production wise we are following the schedule where we are producing some 20 plus trucks per week. And, we plan to do that to about the end of July, actually the third week of July. Then we will close down for one week due to the material situation. Since we reduced packing, when was that March, April something. Sorry in May, June we reduced and that will effect our production in July so we closed down one week. And then we continue with a much lower production with some 12 to 15 trucks. We will continue with until we have hit the packing in July, August and September and the outcome of that, I don't know yet. So we will run out of material, we will finish the material that is packed up until and including June we will finish that in August. Then we have some 50, 60 trucks left before the packing then starts in July, August.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 22 June 2004, (from transcribed MD-recording)

In addition the strategic short term actions and long term goals were discussed. Firstly, the short term actions were reviewed, how to react to the new legislations vis-à-vis changing the product mix and coordinating the industrial and commercial side to create a new packing program. Secondly, the long term goals and how to act in the future were brought up for discussion.

### 6.6.6 Coordination efforts

In the extra meeting the lack of communication between the industrial and commercial sides was brought up for discussion. This was a result of that the volume plans differed between the different Volvo Trucks' organizations.

**Carl Stiernström** (Commercial side): *We need to discuss this subject, because I feel I don't know but it seems to be some kind of lack of coordination- maybe I'm wrong I just have a feeling that we need to discuss this.*

**Jon Andersson** (Hua Wo): Answer your question straight there [Carl] is that in the discussions that has been held between Beijing and – let's say the Volvo office and Sweden I have been some information but not the whole picture. We have been talking, we are of the same opinion that we should not build any more trucks that are just going to be put on hold. That is also a confusing thing for Simon and David that they can not specificate the trucks they want. It's not an excuse to them but I understand that they have nothing to say actually.

[...]

**Jacob Wall** (Commercial side): I think that following procedures, it might be that we should share them with the JV. But the production planning process?

**Jon Andersson** (Hua Wo): Production planning is definitely a part of the JV responsibility. I mean sales forecast is what should be given and that we created

**Jacob Wall** (Commercial side): (interrupts) exactly, with all due respect that is what has been discussed in that meeting that was coordinated by ID International Division. I don't see where, it might be then – our people has not shared that with you [Jon]? Because it goes in now and then it becomes official so to say

**Jon Andersson** (Hua Wo): I have not been in that at all

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 22 June 2004, (from transcribed MD-recording)

Later the issue of the different volume plans was brought up again, this time by the president of international sales, Kent Svensson. The background for the remark from the international manufacturing president was that the industrial and commercial side (in this case Volvo Trucks Greater China and Hua Wo) jointly should decide on the volumes figures, which had not been done. Instead the Hua Wo management team had been informed informally about the decision to cut down the production volumes:

**Jacob Wall** (Commercial side): I'm very surprised if [Jon] says that he doesn't know that we have pulled the break from mid-Sept, if you are saying that Jon I'm very surprised. Or?

**Jon Andersson** (Hua Wo): I have heard but I have not officially been informed [Jacob]! I have heard it through different sources.

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 22 June 2004, (from transcribed MD-recording)

The different opinions of problem with the information flow when it came to the volume forecast highlighted the issue of coordination between the different stakeholders. It was apparent to all of the participants in the meeting that the communication about production planning issues between Hua Wo and VTGC had

to be improved. A solution to this was brought forward by the president of international sales, Carl Stiernström, who referred to the successful relationship between the commercial and industrial organizations in the Australia market. Here Fredrik Högberg, from the commercial organization, had worked well together with his industrial counterpart.

***Jacob Wall** (Commercial side): To much word of talking and we need to, from our side I fully agree with you [Carl] that processes I thought we had in place – we can look at it and it should be in place but now when it is to turbulent if we want to miss read it, we can all miss read it from all sides. Because it's really happening too fast now everything. And it's all turbulent since we really don't have ice in the stomach as someone said before – we might sort of stop everything because it's so worrying. But at least now the person that can help us out from this – improve the communication – is Fredrik*

***Carl Stiernström** (Commercial side): [Jon] has a corresponding Fredrik. Why I'm asking this is because I'm looking now with my Australian eyes, we had a guy named Ross Brown in the factory we had Enid in the sales side. Enid had meeting with the sales side and put together the sales program. Then we had program meetings with Ross Brown and he was looking in his program in order to match the sales program with what he had in his pipe line and everything else and he messed out the plus and minus to be able to correspond as much as possible to the sales program. And then he came back and said "we can do this and this but we can't do that and that because we already have a pipe line and then we correspond it and we agreed upon a total plan". And Fredrik need somebody together with [Jon] that are doing – is sort of his mirror on the production side.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 22 June 2004, (from transcribed MD-recording)

Nothing was formally about volumes, only that the packing of truck should be stopped. However, later the same month, the executives were informed that Fredrik Högberg (who was referred to in the conversation) had completed his Australian assignment. He was transferred to the Volvo Trucks Greater China organization where he was appointed *Product and Production manager*, a position that he occupied from the 1 July 2004. ("Warm welcome to Mr. Fredrik Högberg" E-mail from HRM manager Celia Chai to Volvo Trucks Greater China Employees 30 June 2004)

### **6.6.7 Reactions from the VTGC organization**

The month after the new regulation had been introduced, many of the employees working for the Volvo Trucks Greater China organization were concerned about the future. Together with the new regulations, concerning vehicle weight and axle load, new bank regulations had been introduced leading to a tighter control of bank



loans to Chinese truck customers. In addition to these policies, the new law which made it harder to import trucks, was starting to get a stronger impact on the truck manufacturers. All these politically engineered factors, together with the slowing down of the over all Chinese economy, gave Volvo Trucks' employees more than enough reason to worry. In order to encourage the VTC organization the VP of Chinese sales, Benny Wen sent an e-mail where he told the employees that the current changes in fact were positive for Volvo Trucks. *"What great time and what great opportunity for the Super Team at Volvo Trucks"* he concluded enthusiastically:

**Subject: What Great Opportunity for Volvo Truck in this tough New Market today!!!! How exciting!!!**

Section of E-mail from [Benny Wen] to the VTGC organization Sent 20043007

**1. New Axle Regulations**--Of course short term this would really hurt EVERYONE, as the customers are confused by the new regulations, and shall wait to see how the authorities execute this. But is this really bad for us???????????? NO! NO! NO! This is the best possible thing that can happen for Volvo Trucks.

For example, for Dong Feng and Jie Fang trucks, when they made 8000 RMB profit before per month, what has they actually made?

Cheating on Road Maintenance Fee By registering at 5 ton but transport 30 tons--If the monthly road maintenance tax per ton was 200 Yuan (average for the country), then profit by cheating was 5000 Yuan per month.

Cheating on Road Toll By showing 5 ton on trucks but transport 30 tons--travel of 8000 KM per month, the saving by cheating but paying bribes can be around 3000-4000 Yuan per month.

Look at the 2 combined total: 8000-9000 RMB profit per month under the old regulation where Dong Feng and Jie Fang can overload. Now all that "PROFIT" is wiped out!!!! Then no wonder today Dong Feng and Jie Fang truck owners can NOT afford to operate their trucks. They so call "PROFIT" model by cheating on the two fees are NOT there anymore with the new regulations. How wonderful is that for company like us?????

**Figure 31: Section from E-mail "What Great Opportunity for Volvo Truck in this tough New Market today" from the VTGC VP "Benny Wen" to the Volvo Truck Greater China and Volvo Truck Area Asia Organizations sent 30 July 2004**

### 6.6.8 Reactions from the Hua Wo organization

At Hua Wo, Jon Andersson the president, was not as optimistic as Benny Wen about the future. In September the trucks produced, but not delivered to the customers, were so many that there was no room for them in the Hua Wo yard. Instead the trucks were placed in a field outside the China National factories, until information was given to the Hua Wo management team about further action.

### 6.6.9 Half a year later - the production situation in October

In the October meeting, all the joint venture executives participating in the meeting were well aware of the large number of Volvo trucks standing in the Jinan field. It was the first joint venture executive committee meeting that was held after the summer holidays. This time, neither Jacob Wall nor Jon Andersson was present at the meeting. In the Hua Wo factory the production has finally been halted. Since none of the executives knew when the production would start again, no decisions were taken in order to start the packing of kits.

*Carl Stiernström (Commercial side): Then we have the next issue*

*Gunnar Eriksson (Industrial side): Which is that the production in the JV has been stopped now, I said on my board meeting that the JV production is stopped until further notice.*

*(Everybody is laughing)*

*Carl Stiernström (Commercial side): For the moment [Benny] you have to agree with me, we have about 300 trucks on grass we, are there not about 300 trucks there's about 100, how many pumps? 75 or something? [...] Unfortunately... I think we need to have some more time to decide when we feel we can put material in the pipeline. We need to sell of this stock because we are over stocked in China due to – I think that should be- for the time being there is no need for JV products for the moment to put into the pipeline and we need to, we can take up this issue as an open point on the next JV executive meeting if we have any further information about that. For the moment we foresee that the JV could possible start somewhere first quarter next year but when we don't know.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 25 October 2004, (from transcribed MD-recording)

In the October meeting, the responsibility for production capacity and volume plan was transferred to the VP of Chinese sales Benny Wen and the Volvo Trucks Greater China organization. Before the new regulations, this had been handled mostly by the Hua Wo management team. The reason for the transfer of responsibility was, according to the commercial side, to better estimate the correct sales levels.

### 6.6.10 Later developments

After a period of time the production planning process for the day- to-day business was improved.

*“It is not unproblematic but we have a process there today where we are handling it, and that is the purpose. It is, in reality, even more important to have a functioning process when there are a lot of worries. I feel that we have that today, that we have this dialogue; there are decided programs and rates of production and how we are going to run them. There are several examples of this.”* (Quotation from VTC Global Manufacturing Executive January 2005, translated from Swedish)

Nevertheless, the Hua Wo management team was not altogether happy with the production planning. One example which was brought up as an explanation was that no representative from the JV was invited to the program meeting about the future production.

*“Since Fredrik came here, the production in these program meetings has been forgotten, because we have not been invited even though we have initiated the start up of these meetings a number of times. Okay, we have no production but at some time since we started talking about production they should have allowed us to participate.”* (Quotation from Hua Wo Executive February 2006, translated from Swedish)

To conclude, when it came to the strategic production planning decisions the Hua Wo management felt neglected.

## **6.7 Product Cost Calculation and Financial Control**

*“I think that it’s very important that we have as up to date calculation as possible in one place. The changes that we find should be included. Because I’m offering my head on a plate with what comes out on the bottom line on that calculations sheet. And I would like not to find too many bugs in the calculations like ‘oops we didn’t calculate this and that factor’ so it jumps 25 million here or there. Alright?!”*

Quotation from President of International Sales, Carl Stiernström, in Telephone Conference Joint Venture Executive Committee Meeting 19 February 2004 (from transcribed MD-recording)

Since Hua Wo had only one customer (Volvo Trucks’ through the investment company VCIC) to have a correct cost level on the truck kits (CKD-kits) was important. If the price was too high a loss would be accumulated in the joint venture, which would be a breach of the contract with CNHTC. In addition it would be problematic from a taxation point of view, since the Chinese customs authorities would be able to argue that the loss was a result of tax avoidance. If the price on the kits was too *low* on the other hand, the profit of the Hua Wo joint venture would be unrealistically high. This profit would result in a corresponding loss for Volvo Trucks in Gothenburg, but would nevertheless be subject to taxation and shared equally with the Chinese partner (since the profit was shared in accordance with the shares).<sup>55</sup>

### **6.7.1 First discussion**

In the first joint venture executive committee meeting the issue of deciding the correct cost level on the kits, so called transfer pricing, was highlighted by the president of international sales. The issue was especially important since the first 12 truck kits had already been shipped from Tuve, the factory in Gothenburg.

In order to get the correct cost level on the kits a business model had been developed by Ole Johannesson, the financial controller of Volvo Trucks in Gothenburg. During the last couple of weeks he had been working together with representatives for the Volvo Trucks Area Asia organization in Beijing in developing a business case model in order to calculate a correct cost level of the truck kits.

As Jacob Wall was president of Asian and Chinese sales, as well as a VCIC executive it was decided that he is ultimately responsible for the business case.

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<sup>55</sup> This is a simplified description of the financial agreements and situation, which in reality is extremely complicated.

### 6.7.2 The business case model

In the joint venture executive committee meeting of January the financial controller Ole Johannesson from the Volvo Trucks Head Quarters participated in person. He started by going through the prerequisites for the business case model he had developed.

In the business case model there were three different types of input variables:

- Firstly, there were the volumes of trucks. These volumes were divided in sub groups of: truck kits from Gothenburg and from Brazil, complete trucks from Gothenburg and Brazil and the parts business.
- Secondly, there were the costs related to the trucks. These costs included superstructures, freights, duties, import costs, and warranties.
- Thirdly, different future prospects or scenarios were compensated for through sensitivity analysis of currency effects and level of local integration

In the business model the financial outcome for the different organizations was calculated. For example the model could be used in order to analyze the financial result of the over all Chinese operations, or be used to highlight the financials of the Hua Wo joint venture. The model could also count “backwards” giving the transfer price when having a predetermined financial result in the business.

For Hua Wo the business case model was used in order to achieve the latter. The financial controller suggested a transfer price in order to have the desired financial result of break-even in 2005. The most important things, he underlined, was that the volume and activity plan were sustained:

*Ole Johannesson (Commercial side): What I am expecting in the company is that all of you, that is ID and Global Manufacturing, that you all really make a good program, a good activity plan and really see to that you really reach this production program and realize it*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording)

After having agreed on the transfer price on the trucks the next issue to decide was how to invoice. The invoicing was typically a shared responsibility between the commercial and industrial side and representatives from both sides took part in the discussion.

### 6.7.3 Sharing the cost and profit

It is clear that the internal accounting system was complicated, and the business case model sometimes hard to understand.

In addition, there were several different Volvo organizations involved in the process and not only the dividing of profit between the partners was important for the Volvo Trucks executives. In addition, how the result was to be booked within the internal Volvo Truck accounting system, and divided between the commercial and industrial side, was significant:

**Jacob Wall** (Commercial side): *Just one small issue that must be discussed, I don't know if I'm the one that should bring it up but I hope theses [X] lands in our books. I don't know if it is too selfish to say that in this meeting.*

**Carl Stiernström** (Commercial side): *Take that again [Jacob]!*

**Jacob Wall** (Commercial side): *Those [X] or whatever we would have suggested would land in PNL Volvo Trucks Greater China.*

**Gunnar Eriksson** (Industrial side): *Of course*

**Jacob Wall** (Commercial side): *Just so it happens. Good!*

**Gunnar Eriksson** (Industrial side): *(Laughs) Are you afraid that I should make money there [Jacob]?*

**Jacob Wall** (Commercial side): *No I'm not afraid, we all have good intentions but it might be, sorry Ole, screwed up by the controller (laughs)*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording)

In the meeting it is decided that the business controller of VTC Greater China Sebastiaan van Brantberg should speak to the Volvo Trucks tax department in order to check the proposed transfer price against the internal routines. At the same time he had to make sure that VTGC would benefit from any profit.

#### 6.7.4 The Hua Wo budget

Towards the end of the run through of the business case model the president of Hua Wo, Jon Andersson, wanted to discuss the Hua Wo specific figures. When the VTC controller, Ole Johannesson, visited Jinan he compiled the joint venture specific figures in a separated spread sheet. With these he made a draft budget for the joint venture operations. This budget the VTC controller promised to send to Hua Wo but never did, something that he was reminded of in the meeting:

**Jon Andersson** (Hua Wo): *What I was trying to state - the JV part I would like to see this and agree before it's sent out*

**Ole Johannesson** (Commercial side): *What I can do, you and I went through the quality budget draft during that date. I can make an extract of that program to have the JV as a stand alone quality calculation model.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording)

### 6.7.5 Strategic considerations transfer pricing

The main financial issue of the joint venture executive committee meeting of February was the transfer pricing. Many of the financial concerns, like invoicing and price on parts, had transfer pricing implications.

After some more calculation the executives agreed on take a loss in Gothenburg, rather than risk a loss in the Chinese operations. That meant that Volvo Gothenburg was instructed to invoice only the cost, without any mark-ups. The invoice currency would be in US dollars, at a rate of 1:8 to the Swedish Krona. The result of this procedure would result in an accumulated loss, since the current rate was only SEK 7.20 to the dollar.

### 6.7.6 Deciding the price when having only one customer

The sales procedure for trucks at the meeting was planned as followed, the joint venture was to buy the CKD-kits from Tuve for a certain and pre-agreed price. Then the joint venture would add on a standardized assembly mark up and sell the trucks to VCIC at a profit. VCIC, in their turn, would sell the trucks to the customers. What was not clear, and had to be decided upon, was the price that VCIC would pay for the trucks. Consequently, the representatives of VCIC and Hua Wo had to meet in order to agree upon the price for the trucks. In addition, a VAT registration was needed for VCIC:

***Jon Andersson** (Hua Wo): No that was what I was going to ask, we have to sit down [Seb] and make very sure what the price will be and also how we can invoice.*

***Sebastiaan van Brantberg** (Commercial side): (unenthusiastically) Yeah. Sure*

***Jon Andersson** (Hua Wo): Because for the moment we cannot invoice you, can we?*

***Sebastiaan van Brantberg** (Commercial side): No not for stationary reasons because we have not VAT registry number yet, you can not invoice us. Of course for group accounting reasons it could be done.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 19 February 2004, (from transcribed MD-recording)

Being the only customer to Hua Wo was a mixed blessing for VCIC. On one hand VCIC had full control of the Hua Wo sales, which was important from a control point of view, but on the other hand, being the only customer was problematic since VCIC was obligated to buy all the trucks that were produced, regardless of the market demand. The president of Hua Wo and business controller of VTGC, Sebastiaan van Brantberg, were entrusted the price to decide upon.

### 6.7.7 Request for a more user-friendly business case model

When the price management of the Hua Wo trucks had been discussed the next item on the agenda was the Hua Wo budget. In the joint venture executive committee meeting of January it was decided that the president of Hua Wo should have access to the business case model and to the Hua Wo budget model developed by the financial controller of VTC. However, since the Hua Wo president had not received the promised model, the VTC controller was once again reminded about this:

**Jon Andersson** (Hua Wo): *Ole, you promised that we should have a copy of the latest*

**Ole Johannessson** (Commercial side): *Yes, I have not forgotten you. I have not forgotten that promise I have to take a copy of the model and the ... organize that you can get that piece in a clear way.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 19 February 2004, (from transcribed MD-recording)

The importance of having a shared understanding of the China financial situation was highlighted in the discussions. It is clear that the business case model was too complicated to be of any real use for VTGC and Hua Wo. As a result, the VTC controller agreed to design separate business models for VTGC and Hua Wo. At the same time, it was important to keep the original business case model updated. Several times in the discussion about the business case model the importance of coordination and agreement on the figures was highlighted by the president of international sales.

**Carl Stiernström** (Commercial side): *Can I just say one word of how we are going to handle these calculation models now. In ... there is only one place where we have a live calculation which is used for forecasting and everything. So if you are using the model for simulating various thing, or you want to change basic information in the calculation that must be sent to Ole so we can update the master calculation because if we will let this spread away then very soon we will have 15 different calculations and everyone will believe that they have one that are useful and there will be different results in each calculations!*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 19 February 2004, (from transcribed MD-recording)

One reason for the focus on the business model was because the model would be used for forecasting. These forecasts would later be developed into a budget, and any discrepancies were to be accounted for by the executives from the commercial side.



After agreeing on the importance of coordination, and deciding that any changes of variables should be communicated to the controller of VTC, no more financial issues were discussed during the February meeting.

### **6.7.8 Capital contribution**

The main financial issue of the March meeting was the coming joint venture board meeting (which would be held in connection with the Hua Wo inauguration). To prepare for the joint venture board meeting, the general manager of Hua Wo and the president of VTC Area Asia had drawn up the agenda for the meeting which would be held 30 March 2004. In this agenda *a capital contribution* for Hua Wo would be called for.

However, a framework for decision-making when it came to capital contribution was still needed and had not yet been worked out. This framework, called for by the commercial side, would include the form of the financing, whether the capital contribution should come from loans or from the company's own capital. The Hua Wo controller, Johan Sjöberg, was given the responsibility to prepare a capital contribution plan for the joint venture.

*Carl Stiernström (Commercial side): We will have to produce a capitalization plan*

*Jon Andersson (Hua Wo): Yes, it will be ready. We hope that we will get an indication soon on the material we will send out today, or early tomorrow morning. Then at the board meeting there will be a capitalization plan, yes. We met a representative from Volvo Treasury this week.*

*Carl Stiernström (Commercial side): You will go and ask for a capital contribution?*

*Jon Andersson (Hua Wo): Yes, well we will need capital contribution. How we then should request it, we will discuss in the board meeting, so to say. That is if we should have contribution from our share holders or if we should go out borrowing money*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004, (from transcribed MD-recording), translated from Swedish

### **Agreeing on capital contribution**

In the April meeting the joint venture executives were in a good mood, as a result of the Hua Wo board meeting being fruitful. The major issue discussed in the board meeting was the capital contribution to Hua Wo, which was also agreed on in the meeting.

**Jacob Wall** (Commercial side): Yes, I just got the preliminary minutes from Johan and Jon, from the previous board meeting, and there [Gunnar] participated as well. [Gunnar], you were there... I don't know how much we should go through this?

**Gunnar Eriksson** (Industrial side): I can mention that you have got okay [Johan] concerning the money contribution that means that both CNHTC and I send it in the day we said

**Johan Sjöberg** (Hua Wo): I can say then, that I have Ulf Niklasson and Ervind Tham from Singapore here today, right now, and we are discussing these issues. We are going to meet the banks tomorrow now when we have these issues about financing.

**Carl Stiernström** (Commercial side): Can we take to the minutes that [Johan], so to say, report that this is finished the next time we hear from each other.

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 27 April 2004, (from transcribed MD-recording)

The Hua Wo controller, with some assistance from Volvo Treasury in Singapore, was now to prepare how to finance this capital contribution.

### **Deciding the forms of capital contribution**

In the June meeting the financial situation of Hua Wo had changed dramatically. Nevertheless, the first financial issue discussed was the report from Johan Sjöberg about the status of the capital contribution, decided in the joint venture meeting in April.

The Hua Wo controller informed the meeting participants that it had been decided that the JV would use the Bank of China and the Agricultural Bank of China for financial transactions. The estimation of the Hua Wo controller was that it would take about two months before the loan was approved.

#### **6.7.9 A strained economy – the financial situation as a result of the new legislation**

After having satisfied the joint venture executives' need for information about the capital contribution, the president of international sales casually asked about the general financial situation of Hua Wo. However, the answer he got from the Hua Wo controller was not what he expected:

**Carl Stiernström** (Commercial side): How is the capital situation in the company?

**Johan Sjöberg** (Hua Wo): *The capital situation is that we haven't paid anything more or less during the last month because we haven't got the original papers back from the customs authorities. And without them, we cannot pay. On the other hand we haven't received any money from our only customer because they don't have any money either*

*(Sebastiaan van Brantberg and Johan Sjöberg laugh)*

[...]

**Carl Stiernström** (Commercial side): *Are you saying that VCIC is not paying? How much is outstanding from VCIC?*

**Sebastiaan van Brantberg** (Commercial side): *64 million*

**Carl Stiernström** (Commercial side): *What?*

**Sebastiaan van Brantberg** (Commercial side): *64*

**Carl Stiernström** (Commercial side): *And it's used?*

**Johan Sjöberg** (Hua Wo): *Well, half of it you can say*

**Sebastiaan van Brantberg** (Commercial side): *Yeah, yeah, yeah*

[...]

**Carl Stiernström** (Commercial side): *[Jacke], do you have any comments why you are not paying your bills?*

**Jacob Wall** (Commercial side): *Why we are not paying our bills?*

**Sebastiaan van Brantberg** (Commercial side): *Because we have not money, we have to sell the trucks our selves before we can to pay our supplier. We are only using money that are coming from our customers to pay Hua Wo, we can't touch the registered capital for instance.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 2 June 2004, (from transcribed MD-recording)

As a reply to the question about the financial situation of the company, the Hua Wo controller explained the background to the financial problems that had arisen. The financial controller of VTGC filled in with information about the situation of the investment company.

The financial situation of Hua Wo was strained because the company had outstanding receivables on VCIC for 64 million RMB. At the same time, Hua Wo did not have a certificate from the Chinese customs authority with the result that Hua Wo could not pay its suppliers either. The reason to why VCIC had not paid its debts to Hua Wo was because the sales were below forecast, due to the change in the gross vehicle weight regulations, announced in May.

### **Strategies to handle the financial problems due to the new regulations**

It is clear that neither the president of international sales nor the president of global manufacturing knew about the financial problems that Hua Wo was experiencing. When they were informed they both reacted to the information very strongly. The most important issue was that it was not “the Volvo Way” of doing things. That is to say, to not fulfill commitments to suppliers and business partners. As a result, both executives wanted to arrange for a capital injection from the Chinese investment company VCIC as soon as possible.

In order for VCIC to be able to inject capital into the Hua Wo business a VCIC board meeting had to be held.

***Carl Stiernström** (Commercial side): Because I mean that seems ridiculous that we should not pay the factory for the trucks before we get paid by the customers, it seems like... not the Volvo way of doing things.*

***Jacob Wall** (Commercial side): No, and that was not the plan either but there are some extraordinary circumstances right now with the new policy that came out first of May. But that we can take in a separate meeting. We have had some problems of course; otherwise the idea is of course that the truck should be moved as soon as possible to our dealer. That is the plan but for some reason that has not happened and let's take that outside. It's a long discussion.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 2 June 2004, (from transcribed MD-recording)

All the executives were in agreement about the need of having a board meeting to solve the current financial problems of the joint venture. The president of international sales, Carl Stiernström, even took it upon himself to make sure that the board meeting was announced.

However, when it came to the actions needed to solve the financial problems of the joint venture, the opinions of the executives differed. The heads of the industrial and the commercial sides wanted to use the VCIC capital to pay the debt to the joint venture, but this suggestion was rejected by the VTGC controller.

***Carl Stiernström** (Commercial side): Okay, we need to get to a situation where we are handling the payment in an ordinary fashion. Especially now when the JV have limitations on the capital. (Quiet) I mean we are exposing CNHTC also in it to the 50% role of the JV. This is, it is not a good advertising for Volvo if we are not paying our bills from VCIC. I don't like it!*

**Gunnar Eriksson** (Industrial side): *But I mean it seems to be a long procedure if we should change and inject more capital with the time it takes to go to the bank and take loans, so is that time frame enough or will we running into problems in the respect of our agreement with CNHC?*

**Carl Stiernström** (Commercial side): *Good question*

**Gunnar Eriksson** (Industrial side): *We should not end up in such a blaming situation. I suggest that this is taken seriously and really making sure that we can fulfill our obligations, firstly to our – CNHTC*

**Carl Stiernström** (Commercial side): *I think VCIC should pay their bills, and I think it sounds ridiculous that we can't touch the capital of VCIC if it takes long time to get a bank loan. It's Volvo money, Volvo money – the same bloody money!*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 2 June (from transcribed MD-recording)

As a consequence of the disagreement about the forms of financing, it was decided that this issue would be discussed at the next VCIC board meeting. The main principle, the VTC executives argued, had to be that Volvo would fulfil its obligations, regardless of the means.

### 6.7.10 Summing up the financial situation

By the joint venture executive committee meeting of October, all the outstanding urgent financial problems had been solved. Nevertheless, the current situation, with very low production, raised other important financial concerns for the future.

**Carl Stiernström** (Commercial side): *We just go through the last minutes of the meeting. [...] Let's then, the first point was financial update by [Johan Sjöberg]. And then we talked about loan application... this capital contribution is finished it is now done deal so that's not an issue. But this (reads from the minutes)– “[Carl Stiernström] will ask Inga Nisson, as the new chairman of VCIC, to summit the VCIC directors to a board meeting” – we have had the board meeting. “During this board meeting issues like loans and capital contribution to the joint venture, and the roles and responsibilities for VCIC, should be discussed” – we have had these discussions but not in the relation to the joint venture directly, specifically*

**Gunnar Eriksson** (Industrial side): *No, we agreed on the last board meeting in the JV of the need of capitalization and we also discussed different alternatives. And it was a proposed alternative loans from different banks and I brought that home and had the approval and that was done. So I don't think there is anything new there.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 25 October 2004 (from transcribed MD-recording)

In addition, the capital contribution to Hua Wo had also been dealt with and there was no need for any further capital contribution to the factory.

#### **6.7.11 Later developments**

After the joint venture executive committee meeting in October, no more regular joint venture executive committee meetings were held. Every-day financial activities were instead handled by the financial controller of the Hua Wo organization, Johan Sjöberg, and the Swedish speaking business controller of VTGC, Sebastiaan van Brantberg. Their relationship was good and no conflicts arose with regard to the day-to-day financial business.

## 6.8 3P Sourcing

*“In order to reach these volumes you must have local sourcing. I mean, it isn’t cheaper for us to send CKD-kits, a little bit cheaper but it is marginal, it doesn’t give us anything. Local sourcing is a very important part of this, and with the past experience, if you look at other Volvo joint ventures they have not at all achieved local content to the extent they had planned.”* (Quotation from interview with VTC Commercial Side Executive 20 of February 2004)

Even though the discussions about local sourcing had already begun at the time of the first joint venture plans, very little effort had been put into finding local suppliers. The reason for this was said to be that the purchasing organization was not used to operating outside Europe:

*“It is only that even though the company management says so it does not happen because there are too many purchasers at home that are very comfortable and think that it is too far away and too insecure. No one wants to take the risk. [...] The decisions from the company management are only recommendations.”* (Quotation from former Industrial side manager Volvo Trucks)

Whether a result of insecurity or some other reason, it was not until more than a decade later, or the beginning of 2004, that 3P started to draw up the guidelines for its future China operations.

For Volvo Trucks, the issue of local sourcing had become more and more urgent. The lowered import duties on imported trucks made it very hard to cut costs through assembling the trucks in China. The main reason for the JV had been to circumvent the high import duties by importing kits instead of trucks. Now the focus shifted to cost savings through local sourcing. In this respect, the representatives from both sides of Volvo Trucks, the industrial and commercial sides, were in total agreement of the importance of Chinese sourcing:

*“Only purchasing, that is not enough. I think, you also have to think, about the conditions for construction. They must be an integrated part of our 3P activities; purchasing, construction and product planning. Otherwise there is a risk that we look at China from a Western point of view instead of looking at the West from a Chinese point of view.”* (Quotation from interview with VTC Global Manufacturing Executive February 2004)

### 6.8.1 First meeting

In the December meeting, none of the participants felt that they had been updated on the status of the purchasing organization. As a consequence, the president of

global manufacturing, Gunnar Eriksson, proposed that a representative from 3P should be present at the future joint venture executive meetings. The president of international sales, Carl Stiernström, agreed with this, and suggested that a person with knowledge of sourcing both locally in China and globally should be invited. The 3P president of Europe and India, Bo Kringström, was identified to be the right manager to attend.<sup>56</sup>

### 6.8.2 Localization of the 3P organization in China

In the January meeting sourcing was brought up for discussion once again. Since no representative from 3P was present, the participants talked about sourcing in a general way. After a while, the discussion turned to the 3P level of involvement in the Chinese market. 3P was in the process of starting up operations in China and was at the moment preparing to set up an office in Shanghai, instead of in Jinan which was planned originally. The current status of their operations was still not known, but the choice of localization was subject for speculation by the participants in the meeting. From a Volvo Trucks' perspective, Jinan would have been preferred to Shanghai, as a purchasing base. This led the participants to suspect a hidden agenda for the purchasing organization. For Renault Trucks, which was planning to establish a joint venture in the outskirts of Shanghai, the decision to localize the purchasing hub in Shanghai was more than welcomed.

***Carl Stiernström** (Commercial side):* I saw and noted that we have talked about a 3P member, to see to the purchasing, and someone like that are not present today. What we do know is that Karl-Erling Trogen through methods of exhaustion... now they have given in and are about to open an interim office in Shanghai. Why Shanghai, is it a favorite place? (laughs) According to Karl-Erling Trogen, is it articulated that both 3P and the engine side should, in the long term, open an office in Jinan. And this is only an interim solution – like hell? But this is the case – and that can not... In my knowledge, maybe you know more [Jacob], there is no one from 3P in China yet.

***Jacob Wall** (Commercial side):* I don't know either. Well, no. No one should be installed yet. It is only Powertrain that are in place.

***Carl Stiernström** (Commercial side):* We wait until we have someone in China. Because they are starting by appointing someone, anyway. So someone will be present. Otherwise there will be no projects to be driven.

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<sup>56</sup> In time for the December meeting the Volvo 3P Purchasing department was divided into a matrix organization consisting of business units (cab, chassis, vehicle dyn. and electronics) and area markets (Europe/India, North America and South America). (Internal documentation: "Volvo 3P Purchasing Organization Chart November 1<sup>st</sup>", 2003)



**Jacob Wall** (Commercial side): *It is interesting for all in the audience to know that it looks, with all certainty as Renault will start their operations in Shanghai. They are about to open an office there, and so on. So, it's not hard to put one and one together. Why do some decisions suddenly go in the Shanghai direction, which were decided to go in a totally different direction?*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 20 January 2004, (from transcribed MD-recording), translated from Swedish

### Waiting for Bo Kringström

In the February meeting, the representative from 3P, Bo Kringström, did not participate, even though he had been invited. None of the participants knew beforehand if he would show up or not, which led to a great level uncertainty in the issue.

The rights and responsibilities of the 3P organization were important for all the participants in the joint venture meeting. For the Hua Wo management, it was also of a great practical importance. The president of Hua Wo, Jon Andersson, exemplified this by telling the others that he was approached daily by suppliers:

**Carl Stiernström** (Commercial side): *I think [Bo Kringström] has to tell us a little about what their thoughts are and what they are doing, and what is happening in the purchasing department here.*

**Jon Andersson** (Hua Wo): *I can give you an example, sorry to interrupt you [Carl], but I have had a meeting with 14 people today, representatives from different companies (laughs)*

**Carl Stiernström** (Commercial side): *Yes*

**Jon Andersson** (Hua Wo): *They wanted to sell everything to me and I just said "call [Bo Kringström]"*

**Ole Johannesson** (Commercial side): *That's right*

**Carl Stiernström** (Commercial side): *That's right. I mean, if we now want to see another long term plan from [Bo Kringström]. But let's come back to that when it blips on the phone and he is online.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 19 February 2004, (from transcribed MD-recording), translated from Swedish

Bo Kringström never called in to the February meeting. Instead it was decided that he would present a report on the current status and development of the 3P operations in China in the next meeting. In addition, he was asked to send out the basic information to the joint venture executive committee meeting members a couple of days before the meeting.

### 6.8.3 Differences in opinion between 3P and the commercial side

In March, the 3P executive Bo Kringström finally participated in the meeting. The start of the relationship could however have been better, since the 3P executive felt that the joint venture executives had not checked the time and date of the meeting with him. When this situation had been cleared up, he was asked to give an update of the sourcing situation:

***Carl Stiernström** (Commercial side):* So [Bo], I leave it to you. I know that we asked you in the record of minutes to do, eh, a very deep loaded version about where you are in the 3P side, but... we have had some discussions. We are thankful if you can make an oral update of where you stand in 3P in this for us enormously important issue of how to get the localization activities started – especially towards FM for the moment.

***Bo Kringström** (3P):* What we are going to do is that in the next, in the next meeting trying to, we will try to have a more structured presentation. And my suggestion is, because we have made it official in our Intranet that Eric Hernandez from chassis purchasing will act as responsible for 3P purchasing in Shanghai. He is working with appointing the second expatriate, in parentheses I can say in this meeting that it will probably be Marcelo Vargas, who is working with quality in 3P Gothenburg and our European. The reason for taking some time with him is because - to secure - since he is so called “key account quality 3P purchasing material against fire” in VTC so we can’t just lift him over and then it becomes a large gap. Bearing everything that happens in the VTC quality task force we cannot do that without knowing that we are sure to find a replacement before we can do it. But the basic idea is that he should be transformed to China and then he can start working immediately since he is such an activity today, he doesn’t have a starting run in that respect.

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording)

The next issue brought up by the 3P executive, was a Memorandum of Understanding that the VP of the Volvo Goup, Karl-Erling Trogen, had signed. In this M. o. U., Volvo Trucks had agreed to purchase components for great sums in the Shandong province. Since it had been internally decided that purchasing decisions were the responsibility of the 3P organization, the 3P executive disapproved of the way the M. o. U. had been compiled. He was also very discontented by the fact that he had not been informed about the existence of the M. o. U., until several months after it was signed.

**Bo Kringström (3P):** *Since we talked a bit the week before last when I called you concerning the dates some things have arisen that I think we must clarify what is what. I find some question marks towards there activities, one is this Memorandum I have got hold of where it stand that we should by certain volumes in, eh, Shan Dong? Here it stand, and I read from top to bottom, that Volvo and CNHTC ... 'Buy parts and components and in 2005 the value should be 100 million Euro'. And we must clarify what we should buy, where we should buy it, and how we should get this into the total picture. Is this export, or what? I don't know ho to interpret this English*

**Carl Stiernström (Commercial side):** *Which Memorandum are you referring to?*

**Bo Kringström (3P):** *It is one here that is signed by Karl-Erling last year 22 of August. You will get a copy, at 1 o'clock, when we meet up there. I promised to give one to Jorma as well. Then there is something that was in the latest minutes, it was 'local content 60%' and me knowingly it has never been presented, of course I have not seen everything, but me knowingly it has never been produced any form of plan, or demand in any form of data, which says that local content should be 60%. So I must have some clarification about that then, if it is like that, and when etcetera...*

**Carl Stiernström (Commercial side):** *I can say like this, [Bo], as a comment. Since nothing is ready from 3P it is, so to say, our estimations of cost level, approximately, it is more of a mind set level that is needed in order to get the cost down of our products. We should be aware of that today, when we import the material from Sweden, we are not competitive. Our estimation is that we must come to around 60 to 70 %, Brazilian level in other words, in the local material from China. We would really like to see that we work together with 3P to create a plan - if that is possible and when it can happen. But if we don't set goal areas? I think it is very important, in a mind set point of view, to set goals.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording)

However, the president of international sales did not attach the same importance to the memorandum as the 3P executive:

**Bo Kringström (3P):** *Of course this letter, or this memorandum I talked about before, there are no reasons why we should travel around in other regions if Shandong is the place for all these activities, but then of course we will have some problems. Now I don't know all the suppliers in the Shandong region but I don't know if we have a sporting chance to get this. But I think that it must be clear whether we should source in Shandong in accordance with this memorandum or if we should source somewhere else. Because 100 million Euros is an awful lot of money that we already ought to, according to this, have earned next year. We have to clarify what applies. But I agree that we should and ought to work out a level, if it should be 60 % between VTC and 3P- that I have no problems with that in principal.*

**Carl Stiernström (Commercial side):** *I think like this, my feeling in relation to the engine cooperation is that a great part of it will stay in Shandong. So that will help with the 100 million, right?*

**Bo Kringström (3P):** *Yes, if that is so I would like to know that, okay?*

**Carl Stiernström (Commercial side):** *Of course you will know! That is why, among other things that we are in this meeting. And, well, I think like this: today we are 100% in step with Volvo Powertrain, about localization, about agreement and sourcing and everything. But when it comes to 3P we are not in step, right? And that is what we are trying to do, to find the design on how we keep pace with each other in order to have a joint opinion on what we should achieve in China and how this will happen. But we must find a format on how we can manage this, to sit down and discuss.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording), translated from Swedish

Both the commercial side and 3P executives were engaged in the argument about communication and coordination problems. Several times they raised their voices in the conversation and the atmosphere became almost hard. Once again the issue of localization of the 3P office was brought up.

One of the reasons for irritation was that CNHTC had been approaching the same suppliers as 3P was addressing, and for the same type of material. The conclusion drawn by the 3P executive from this was that CNHTC must have received some type of assignment from Hua Wo. Since sourcing to Hua Wo was the responsibility of 3P, this made Bo Kringström upset. However, no assignment had been given to CNHTC by Hua Wo and after a while, it became clear that CNHTC's need for sourcing of the same material was in reality the result of equipping its newly acquired truck dies. That CNHTC owned truck dies, which had been given to them by VTC as a part of the negotiation process, appeared to be something that the 3P executive did not know. As a result, the representatives from the VTC commercial side voiced their frustration, feeling that 3P was ignorant when it came to the China sourcing activities.

**Bo Kringström** (3P): *Then it is CNTC, what are they doing? Because those suppliers were out there visiting, for example leaf springs and so on, they have assignments from the JV. So the question is, in some way we need to know who does what. Who has which assignment? Who have what instruction – to do what? Because if they are doing a job, instructed by someone. It must be instructed from VTC and no one else, because they can't just make these things up for themselves. They are out with rubber articles and things like that and ask about Volvo cabs and so on. And we have heard them say that, and then we need to know, should we run to them to? Should we not run to them? Who is giving them these assignments?*

**Carl Stiernström** (Commercial side): *You should be in control of all these purchasing activities. I don't understand if CNHTC... I can understand if CNTHC are there and asks questions about their own Volvo cab, which they own – the FL 10 cab, but I have no knowledge whatever, or understanding, if they are asking about cab components to FM.*

[...]

**Carl Stiernström** (Commercial side): *But our things, they have no blueprints from us. Not what I know about, I don't know if [Jon] knows something that I don't know?*

**Jon Andersson** (Hua Wo): *No, I only can confirm what you say. They are out there looking for suppliers to the indoor parts and the suspension parts to adapt the FL-cab to the chassis.*

**Carl Stiernström** (Commercial side): *And that you cannot stop, of course they must be allowed to do that. But of course they have no assignment from Volvo to look for any FM parts; everything must be coordinated with 3P. Then I say like that, we have some knowledge ourselves, and CNHTC also, that is possible that we should use that knowledge and ask them to do something for us. But that we should decide for ourselves, or 3P decide. First and foremost we must be in agreement about how we operate this, who should operate this. And by the way it doesn't make it any easier that you are in Shanghai, but that is a side issue.*

**Bo Kringström** (3P): *(angry) Now we don't have to discuss about Shanghai, I don't want to discuss that issue anymore. That is a political issue that has been clarified in some way, I don't know.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording)

In the meeting it was clear that more time was needed to create a shared view of the sourcing issue, and the representatives from Volvo Trucks and 3P agreed on having a separate “sourcing meeting” in order to reach agreement:

**Carl Stiernström** (Commercial side): *My suggestion, when listening to this strange discussion, is that we as soon as possible call a whole day meeting in Beijing - with these people that are, or should be, responsible for the purchasing side. With the people that have knowledge about this area within Volvo trucks, [Jon] too should participate, and that we have a discussion there about how this should be run. How we should build for the future, the objectives we have, how we could transfer the knowledge to 3P about the market prerequisites in this country, and what we need to succeed with. So we have some kind of strategic plan in order for us to walk in pace.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording)

In the March meeting it was consequently decided that representatives from Volvo Trucks and 3P were to meet and coordinate their purchasing efforts.

#### 6.8.4 Status and development of 3P operations

No representative from 3P attended in the joint venture executive committee meeting held in April. At this meeting it was instead the president of Asian and Chinese sales, Jacob Wall, that reported from the purchasing development meeting (between 3P, VTC and Hua Wo) that was held in Beijing. In this meeting (23 April 2004) the representatives from the 3P side, Bo Kringström and Eric Hernandes, participated together with representatives from VTGC and Hua Wo.

Jacob Wall expressed his satisfaction with the outcome of the meeting hoping it to be a step toward a higher level of China sourced components.

**Jacob Wall** (Commercial side): *That is the meeting we had with 3P, it was a very good meeting I think. It was me, and [Benny] – there was [Jon Andersson] and [Bo Kringström] and Eric then – who is in Shanghai and our guys, Hudson and Clark. And the conclusion is that we should work through 3P, that it is 3P that do all the purchasing, that we should follow the 3P routines in China. And if we support them and give them our resources, they should be able to start right away.*

**Gunnar Eriksson** (Industrial side): *But [Jacob], will 3P now be able to work out a plan in order to reach a higher level of locally sourced material so we have an ambitious plan to work towards, when it comes to value appreciation.*

**Jacob Wall** (Commercial side): *Yes, it does not exist yet but we brought this issue up and now they have to work with it. That is what Eric is working on now and he has to work that out – that is what we are pushing them towards that we need to know that the scope is. What the ambition is about what we should reach, are we in agreement of that?*

[...]

**Gunnar Eriksson** (Industrial side): *Because it is bloody important for the economy of the business and the possibility to fulfill our strategy when it comes to local sourcing. To have trucks locally, so to say. But, okay, the consequence is that the ambition is what we VTC should show, where we want to go – and then 3P must respond to that, right?*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 27 April 2004, (from transcribed MD-recording), translated from Swedish

For the heads of VTC in the meeting, the issue of locally produced components was of great importance, and they both asked for clear and tangible objectives for local sourcing. They also emphasized the importance of continuous cooperation between the different organizations. In the meeting it was decided that the next meeting concerning the sourcing issue, between the representatives from 3P and VTGC (known as the sourcing cooperation group) would be held 13 May 2004. In this meeting a more elaborated framework for Chinese sourcing was to be presented.

#### **6.8.5 3P status report**

In the regular joint venture executive committee meeting in June 2004 the new automotive policy, concerning gross vehicle weight and axle load, hung like a shadow over all the issues discussed. Since none of the participants knew exactly what would happen, the sourcing activities were discussed in much the same way as in the previous meetings. The difference was that the level of uncertainty about the outcome of the decisions was much higher. For example, the future of the newly established group for cooperation in the purchasing activities that had been established was unclear. The main purpose of this group had been to work on the local integration for the mixer<sup>57</sup> segment, a segment that was most hurt by the new regulation.

In the June meeting, the question about the responsibility for the sourcing activities was emphasized once again, this time by the president of Asian and Chinese sales, Jacob Wall. He and the VP of VTGC Benny Wen were worried about 3P cooperating with CNHTC, without taking into account the position of Volvo Trucks in China.

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<sup>57</sup> Mixer is a truck that carries a slowly rotating big bowl of concrete

*Jacob Wall (Commercial side): [Bo, Bo Jacob] here. I think (sigh) it's important that if we don't do it in this meeting we should do it tomorrow, that we really clarify who should be your partner in global sourcing because should it be the various JV that we have in China, including our own JV or, or - should it be the partner that is owned by 50% by Volvo or should it be the body that is 100% owned by Volvo?*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 2 June 2004 (from transcribed MD-recording)

The newly appointed managing director for the Chinese operations of 3P, Eric Hernandez, participated in the JV executive committee meeting for the first time. He did not take an active part in the discussion about strategic considerations when choosing sourcing partners, but gave the long waited update of the status of the 3P operations in China.

Eric Hernandez started his report by telling the participants that the Shanghai office of 3P was established at the beginning of April 2004. Three employees had been appointed, among them a quality manager. The team was currently coordinating the purchasing activities for Volvo Trucks, Volvo Construction Equipment and Volvo Bus. 3P's strategy was to *"go faster and to focus on the big spending"*. The 3P strategy could be divided into three steps: *Firstly* major components were to be identified (both for export and for local integration). *Secondly* suppliers were to be identified for these components, in North America, Europe and China. *Thirdly*, the last step was to organize a *"China Business Volume Plan"* with is a program in which potential suppliers were invited to participate.

After Eric Hernandez had finished his presentation little time was left for questions. However, the president of international sales took the opportunity to voice his opinion about the importance of clear volume goals when it came to the sourcing of material.

#### **6.8.6 After production is stopped**

In the joint venture executive committee meeting of October the understanding of the new policy had sunk in for everyone in the meeting. Since the last meeting, the production of trucks in Jinan had stopped. As none of the participants knew when the factory would be able to start again, the sourcing activities of 3P had not been given much attention. Since no representatives from 3P were present in the meeting, the sourcing was not discussed further in the meeting.



*Carl Stiernström (Commercial side): This 3P status report... Nothing happened. That's the report. As 3P is not participating in this meeting I think we leave 3P issues – in the meeting today. (Mumbling to himself)*

Extract from Telephone Conference Joint Venture Executive Committee Meeting, 25 October 2004 (from transcribed MD-recording), translated from Swedish

### 6.8.7 Later developments

The relationship between 3P and the VTC organization did not improve during 2004. VTC argued for a long period of time that the lack of communication between the VTC (including VTGC) and 3P organizations was not acceptable. Finally, in 2005, a new team, of executives was constructed, which included the heads of the different stakeholder organizations. After this, the relationship between the VTC and 3P was somewhat improved.

*“Only a year ago we got a coordinated decision in trucks that “-Yes now we are going to start this purchasing department, now we are going to start looking on a new product” When we finally got the right people onboard all these: “-No it is too difficult”, “-No, it is impossible, “- We do not have the resources” and everything, all of a sudden, things started to happen and we took decisions “- This we are going to do!” and now it has started and is being done.” (Quotation from interview with VTC Global Manufacturing Executive January 2006, translated from Swedish)*

The team of executives worked for about a year to coordinate their efforts before they were finally spilt up in 2006<sup>58</sup>.

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<sup>58</sup> The background to composing the team was to construct an Asia adapted truck. This aim was abandoned when Volvo Group changed its strategy and decided to buy into the Japanese truck manufacturer Nissan Diesel 21 March 2006.

## 6.9 Inauguration

*“We were not involved at all in the inauguration.”* (Quotation from Hua Wo Executive June 2004, translated from Swedish)

The inauguration of the joint venture was considered to be of strategic importance, mostly as a marketing event. Since the executives from the Volvo Group Head Quarters participated in the inauguration activities a lot of effort was put into giving them a comprehensive understanding of Volvo Trucks’ Chinese operations. In the joint venture meeting also the issue of coordinating the inauguration activities between the joint venture management and the Chinese market organization, Volvo Truck Greater China, in Beijing was discussed.



**Figure 32: The red ribbon of the Hua Wo inauguration is cut**

The first preparations for the inauguration of the Hua Wo factory were based on the assumption that the Volvo group delegation would come to China shortly after the start up of the joint venture. Since the factory was supposed to be up and running in November, the Hua Wo management considered mid December to be an appropriate time for the activities. However, it soon became clear that the first possible date for a Volvo management group visit was in March, four months later.

One of the first meetings concerning the inauguration was held in November 2003 when Tommy Kohle and Claes Claeson, both from the VTC Corporate Communications Department, met representatives from the Hua Wo and VTGC management teams in Jinan. In this meeting the guiding principles for the inauguration, as well as the division of responsibilities between the parties were decided.

### 6.9.1 First discussion

At the first joint venture executive committee meeting in December it was already known that the time for the Volvo Group to visit China would be late March. In the joint venture executive committee meeting of December, when the issue was brought up by the commercial side, the plan was that the opening ceremony, and inauguration festivities, would be held in Jinan 29 March 2004.

#### Schedule for Leif Johansson's and Jorma Halonen's visit to China

March 27, Saturday	Media group headed by Tommy Kohle and Claes Claesson will arrive
March 29, Monday	Opening ceremony of Hua Wo will take place; together with other activities, press conference and dinner in the evening
March 30, Tuesday	Leif Johansson and Jorma Halonen go to Shanghai

**Figure 33: Section from December meeting minutes**

**Source:** From "Minutes for Telephone Conference Joint Venture Executive Committee Meeting 16 December 2003" by Åsa Käfling

After having presented the initial information, the president of Asian and Chinese sales, Jacob Wall, emphasized that Jan van Setten (head of Volvo China Investment Company) was in charge of the over all program. He continued by saying that Volvo Trucks Greater China (VTGC) would only arrange for the day of the opening ceremony, and that this event ceremony would be coordinated between the Beijing office, the marketing director for Area Asia Björn Brännberg in Gothenburg and the Hua Wo president Jon Andersson in Jinan.

### 6.9.2 The inauguration plans sent to Gothenburg for approval

In the January meeting, the activity was brought up again. Between the meetings a proposal had been drawn up by the commercial side (Jacob Wall, Jan van Setten and Björn Brännberg) which had been sent to the VP of Volvo Group for approval. The proposed order of event for the whole visit was to start in Jinan Monday 29 of March 2004 with the opening ceremony, have the celebration party the same evening in Jinan, visit Beijing on Tuesday and Shanghai on Wednesday before returning to Sweden.

The response to the proposal was anything but encouraging. The suggestion put forward by the Volvo Group VP Karl-Erling Trogen was instead to have a quick opening ceremony and fly out again the very same day.

**Carl Stiernström** (Commercial side): *They only comment that I heard from which I understand from Leif was that he wanted to have visited the other JV, Volvo JVs before meeting the press in order to be updated on the situation in China. That was the explanation*

**Jacob Wall** (Commercial side): *That was what we heard also, but the solution we had to this- the reason to why we wanted to start in Jinan is of course then it could be a proper party on the Monday night to show respect to the Jinan people. But if they fly out Wednesday night and stay a little bit longer, fine then we have solved it and everybody is happy. But just to have a lunch together with them Wednesday might not fly I would guess. But in order to have him updated that could have been done prior to him leaving Sweden. But apparently he wants to visit the different sites also, so if he gets the question "have you visited" he wants to be able to say yes. And I can understand that. So that is on their desk to decide [Carl].*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 20 January 2004 (from transcribed MD-recording)

Consequently, at the February meeting the plans for the inauguration were clearer. It had now been decided, in the highest Volvo quarters, that the Volvo Group representatives would arrive in Jinan Wednesday 31 March.

**Jon Andersson** (Hua Wo): *What I understand is that the high ranks will not stay for the dinner in Jinan and only have a lunch at the inauguration*

**Jacob Wall** (Commercial side): *That is not clear yet, because so far we have not get the information who will actually attend still, I don't think we will know until the very end about the top officials.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 19 February 2004 (from transcribed MD-recording)

### 6.9.3 Enter the engine joint venture

The marketing director for VTC Area Asia, Björn Brännberg, had been asked to participate in the March meeting in order to present the proposed program for the inauguration of the factory. However, since the last meeting, the context of the inauguration activities had changed dramatically since it had become clear that the Volvo Powertrain negotiating team had a *Letter of Intent* for the engine joint venture within reach. During the last few days, the negotiation teams had been working tirelessly in order to be able to have a signing ceremony when the Volvo Group representatives arrived in Beijing. At the time of the March joint venture executive committee meeting, this signing ceremony had not yet altogether been completely confirmed, so the agenda for the inauguration was even more uncertain.

**Carl Stiernström** (Commercial side): *Then I suggest that we start with Björn and talk about this Inauguration activity. I can say, as a starter, that it has been pretty turbulent during these few days with Leif's visit and that we are trying to handle the visit. It looks like we are going to have an activity in Beijing about the engine joint venture, you know. And it isn't fully confirmed yet but it has caused some disagreements and we have been forced to work quite a lot with the agenda as such. Björn will talk more about the Wednesday activity, but I have been more involved in the activities, the twists and turns of this activity in Beijing then.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording), translated from Swedish

The final decision on the matter was to be taken at the board meeting of Volvo Group, the very same day as the joint venture executive meeting. As a result, all the participants waited for news with a sense of excitement.

### **Another signing ceremony?**

To complicate things, a side agreement about sourcing cooperation had been reached with CNHTC. In the proposal from the marketing department, a signing ceremony for this agreement had been planned. When the president of international sales Carl Stiernström noticed this, he was hesitant about such an arrangement.

**Carl Stiernström** (Commercial side): *I don't understand this, what has it to do with a signing ceremony in Shandong to do? Oh, Shandong State?*

**Björn Brännberg** (Commercial side): *This is a new program that came up during the weekend, really.*

[...]

**Jacob Wall** (Commercial side): *Yes, yes but the idea was that we want to do something- the background it that it might be a bit thin when we come to the inauguration on Wednesday. And then we wanted to something more to show that it is, that we will continue. But we are looking right now on what this will be. And you will certainly see it when we are finished.*

**Carl Stiernström** (Commercial side): *(coughs) Okay, we have to look at it, but I am a bit concerned. Just a side question, how can we have fire crackers?*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording), translated from Swedish

During the meeting, the president of international sales became more and more concerned, not only about the signing ceremony of the side agreement, but also about the rest of the program. Since many of the stakeholders have had their wishes for the inauguration activities, the result had become a very tight schedule. In addition, as the factory was located about one hour by car from the Jinan city centre the expressed desire from the Shandong government, to have parts of the program in Jinan, was hard to fulfill.

**Björn Brännberg** (Commercial side): *The first thought was that we should have the press conference here in the factory, and then go out and have the press conference in the, you know, the other building outside – and then that we should test drive the vehicles. So that was the plan from the beginning, but now they want us to have lunch in the city and this is the result.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording), translated from Swedish

As a result, it was decided that the president of international sales would receive updates with the latest developments, both concerning the signing ceremony and the current status of the inauguration activities.

**Carl Stiernström** (Commercial side): *I can't understand why you should have the press conference in the city. That I don't understand [Jacob], how you could come up with! We should have the press out there!*

**Jacob Wall** (Commercial side): *We didn't come up with it [Carl]!*

**Carl Stiernström** (Commercial side): *But then I think you should change it!*

**Jacob Wall** (Commercial side): *It's not that easy. If we could, if we were allowed to do that, we would have loved to do that [Carl]!*

**Carl Stiernström** (Commercial side): *Who is deciding it then?*

**Jacob Wall** (Commercial side): *Well, we have the partners and then it is the Shandong government and all the other stakeholders...*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording), translated from Swedish

After reaching agreement on these activities, the marketing director of VTC Björn Brännberg left the meeting and the remaining participants prepared to discuss the other matters of importance. This time it was the president of Hua Wo, Jon Andersson, who until now had taken a passive stance in the discussion about the inauguration that brought up the question of who was to be present in the activities.

### The inauguration participants

Many of the managers at different levels at the Volvo organizations had been discussing whether they would be allowed to attend the inaugurations festivities. At Volvo Trucks in Beijing, it had been communicated to the employees, that it was important that the inauguration became a “Chinese event” rather than something with mostly Swedes participating. It was also considered to be important not to have too many “western faces” in the audience during the inauguration ceremony, as a result of an unfavorable remark about the number of westerners from the top management team in an earlier inauguration ceremony in Asia.

In Jinan, the managers had not been informed about which of them that would be allowed to attend the inauguration activities.

**Jon Andersson** (Hua Wo): *I have a question about this inauguration at the factory. Have you given any thought to who will represent this company – and any sort of list made up?*

**Jacob Wall** (Commercial side): *I did not understand the question, there are several lists of people that should attend – but we are still working on it. And in the official situations it is Cai Dong then, who is the chairman, that will deliver the speech.*

**Jon Andersson** (Hua Wo): *I wasn't thinking that much about the speech part, because that I was given that information by Björn – but I mean to be a part of, what should I call it – the audience.*

**Kent Svensson** (Industrial side): *Do you mean which people are invited, [Jon]?*

**Jon Andersson** (Hua Wo): *For example, my management team are probably interested in participating in such a ballyhoo, since it is our factory...*

**Jacob Wall** (Commercial side): *But of course they should be there. Then I suggest that you coordinate which people you want to attend with Jeff [Benny Wen's assistant] here. Because I feel that it is evident that they should take part in the public activities, but the question mark is still over who should attend the lunch and who should attend the dinner in the evening. And there we don't have one single answer yet, so we don't know. In all probability, people like me and ... well we others, are not a part. I will not attend and I don't think Jan van Setten will attend the dinner in the evening, but it is at the next level of the hierarchy, [Gunnar] and [Carl] and so on. [...]*

**Jon Andersson** (Hua Wo): *Only one additional question. We are here and have among other things, two wives with us. Should they attend or not?*

**Jacob Wall** (Commercial side): *I have no idea*

*Carl Stiernström (Commercial side): I don't think we take them along. That's my opinion; since no one else takes bring their wives, so to say. It is either with or without.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 22 March 2004 (from transcribed MD-recording), translated from Swedish

#### **6.9.4 The inauguration festivities**

When the day for the inauguration finally came, the opening ceremony in Jinan was almost completely overshadowed by the engine joint venture activities in Beijing. Most of the press coverage was concentrated on the signing ceremony of the *Letter of Intent* between Volvo, FAW and CNHTC. In Jinan the program went quite smoothly with only minor delays as result of a rather longer speech than anticipated from the Shandong government representative.

Nevertheless, two incidents happened that had major implications on the relationship between Volvo Trucks Greater China and Hua Wo.

The first one of these occurred at the official lunch held to celebrate the letter of intent for the engine cooperation, and to none of the Hua Wo management team were invited to. When the president of Hua Wo, Jon Andersson, came to join the party he was asked to leave by a representative of VTGC, only to be called back again by the president of VCIC, Jan van Setten.





**Figure 34: Picture from the VIP lunch at the Hua Wo factory**

Later almost the same thing happened at the official dinner for the Hua Wo inauguration. When the Hua Wo president came to the banquet hall, he was told by the assistant of the VP of VTGC Benny Wen, that his name was not in the list of participants.<sup>59</sup> This was not true, but when the situation became clear for the parties concerned the Hua Wo president had already left the building, raging with fury. Cai Dong, the president of CNHTC was very upset since he felt that CNHTC was being held responsible for what had happened. In the corridor outside the banquet hall he repeatedly asked the assistant, over and over again, what had happened.

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<sup>59</sup> Both the president of Asian and Chinese sales, Jacob Wall, and the VP of Chinese sales, Benny Wen, participated in the VIP lunch and in the inauguration dinner. In addition the president of global manufacturing and the president of international sales attended. The president of international manufacturing did not participate in the inauguration lunch or dinner.



Figure 35: Picture from inauguration banquet dinner (VP of Volvo Group Karl-Erling Trogen to the left)

Finally, see *Figure 35* the VP of Volvo Group, Karl-Erling Trogen, sitting at the table of honor, was able to reach Jon Andersson on his mobile phone and the president of Hua Wo returned about half an hour later.

### 6.9.5 Later developments

In the end, the inauguration of the joint venture in Jinan became only a small part of the China visit for the Volvo Group management team from Sweden. When the VTGC employees were informed about the tight schedule of the Volvo management group, many of the employees, both from the industrial and the commercial sides, felt disappointed. After the banquet dinner, and after the Volvo management group had left, the conclusion reached by the Hua Wo managers was that the event as a whole had been successful, but that the production perspective, as well as the Chinese partner's perspective, had been lost in the process.

*“Before it was Jan van Setten who was the coordinator. Then it was transferred to the local Beijing office and then many issues fell between the two stools. I don’t know. We kind of felt that it was more a Volvo product exhibition than a factory inauguration, that’s for sure. We felt a bit sidestepped when it came to the inauguration activities. We felt that the focus was more on our products than the factory, but for us working here we are a manufacturing company under Global Manufacturing.”*  
(Quotation from Hua Wo Executive June 2004, translated from Swedish)

Probably, the management of CNHTC also felt somewhat dissatisfied with the inauguration (and possible also the relationship towards VTC), as the company's gift to the Volvo Group executives to remember the inauguration was a replica of the famous book "The Arts of War" by Sun Tzu.

As a result the Hua Wo management team later arranged for a smaller scale inauguration party for the Hua Wo employees to which all the factory workers were invited. According to the Hua Wo management team "*everyone drank beer, ate grill skewers and enjoyed themselves*"<sup>60</sup>. The CNHTC-appointed chairman of Hua Wo, Cai Dong, and the chief engineer of CNHTC, Wang Shanpo, also participated in the festivities and joined the workers in the celebrations.



**Figure 36: Picture of Hua Wo joint venture in time for the inauguration**

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<sup>60</sup> Quotation from interview with Hua Wo executive February 2006

## **6.10 Painting and Welding Operations Establishment<sup>61</sup>**

*“This whole process have been tested and approved of by Volvo. This, unfortunately, China National used a bit commercially and said that their cabs were painted in the same process as the Volvo cabs. This is true, in a way, but when they used ‘they are painted in the same process as Volvo paints their cabs’ which principally is right but it can be articulated differently. What they said was not untrue but it was wrong.”* (Quotation from interview with Hua Wo Executive February 2006)

As a consequence of the new regulations concerning tax levels on imported trucks and truck components that become known in September 2003, the joint venture executives had to analyze the possibility of establishing painting and welding operations in Jinan.

In a meeting with officials from relevant ministers the VP of Hua Wo, Li Yanshou, had been informed that a new policy was to be implemented, which would greatly influence the Hua Wo operations.

### **CNHTC rings the bell**

The day after the meeting Li Yanshou alerted the members of the joint venture board about the forthcoming policy. In a letter dated 18 of September 2003 (see *Figure 37*) he wrote that the new policy would prohibit vehicles equipped with completed cabs to be listed in the future. For the moment, he continued, it was important to rapidly get the homologation done, before the new policy was issued, since the already homologated trucks would be granted a short period of time for adjustment. Secondly, even though the trucks would get homologated in time, the new policy would influence the operations in the future. To complicate the situation even more, preferential treatment concerning tax issues would only be approved once for every joint venture project. Taken together, he concluded, the only possible solution was to begin planning for painting and welding operations for the Hua Wo trucks as soon as possible.

The letter ended with a suggestion that a number of people from CNHTC, Hua Wo and Volvo would form a project team to work with painting and welding related activities.

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<sup>61</sup> Meaning to assemble (weld) the cab from parts sent from Sweden, and to paint the assembled cab. Until now, complete and painted cabs have been part of the CKD kits.

第一,关于华沃公司产品公告问题.新的产业政策禁止装用国外进口整体驾驶室的汽车再上国家公告.这就决定了在新的产业政策实施前,如我们无上公告汽车,则只能等到华沃公司建起自己的焊装、涂装线后才能对自己的汽车申请国家公告, 这势必打乱华沃公司的整体运行计划。我的意见, 中沃双方马上组成一个专门小组, 其中重汽技术中心专人负责上公告的各项工作, VOLVO 中国专人负责提供技术资料及样车, 华沃公司负责尽快签订商标使用许可合同, 提供上公告用资金及必要的协调。

**Figure 37: Section from letter from Li Yanshou about new regulation concerning painting and welding operations 18 of September 2003**

As a result of Li Yanshou's meeting with the ministry officials the issue of establishing painting and welding operations was brought up in the second joint venture board meeting, 8 of October 2003.

### **New Policy**

*Li Yanshou* informs about the new draft automotive policy that was presented at the China Automotive Conference in Shanghai. When implementing this policy there will be a need for local welding and painting facilities for Hua Wo. In the automotive policy the Chinese government requests locally produced cabs for KD-production. The immediate result for Hua Wo will be that the company has to build a cab-line before July 2004, which is earlier than expected. CNHTC will secure resources for painting and welding purposes.

**Figure 38: Section from: "Minutes of 2nd Board Meeting Jinan Hua Wo Truck Cooperation 济南华沃卡车有限公司第二次董事会纪要" held 8 of October 2003 (Re-written version by Åsa Käfling 2004-03-15)**

In the second joint venture board meeting the issue was discussed in depth. In time for the meeting the Hua Wo management team had prepared a background material for further investment decisions, which was called the *development plan*, where the establishment of painting and welding operations had been taken into account. Three decisions were taken in this meeting, that had bearing on the painting and welding issue: Firstly CNHTC agreed to secure the resources needed for the painting and welding of Hua Wo cabs. Secondly, the president and VP of

the Hua Wo management team, were given the responsibility to conduct a study of the cab welding possibilities by the end of October 2003 by the latest. At last, the development plan, prepared by the Hua Wo management team, was decided to form the framework for further expansion. The preparation for cab welding and painting should be started immediately, and the factory was to be in operation already the second quarter of 2004. All the joint venture board meeting members agreed that painting and welding operations had to be set up in order for the Hua Wo trucks to be sold in the future.

### **6.10.2 Decision making in the JV executive committee meeting**

However, in the following months the issue of painting and welding was somewhat over shadowed by the discussion about the homologation. The activity was discussed again in the joint venture executive committee meeting held in December.

*[Jon Andersson] adds that it is not only the homologation process that is a problem, it is also important to take the new welding policy into account when making plans for the future. Probably Hua Wo must set up a welding plant within six months, in order to comply with new regulations.*

Figure 39: Section about New Welding Policy from “Minutes for Telephone Conference Joint Venture Executive Committee Meeting 16 of December 2003” by Åsa Käfling

### **6.10.3 M. o. U. between Hua Wo and CNHTC**

In January the Hua Wo president and the chairman of CNHTC, Cai Dong, signed a Memorandum of Understanding for the painting and welding of Hua Wo manufactured trucks. In the M. o. U. the rights and responsibilities between Hua Wo and CNHTC for the painting and welding operations were regulated. CNHTC would obtain painting capacity and make sure that the quality requirements of Volvo were met. Hua Wo on the other hand would cooperate with CNHTC through quality inspections and compensate CNHTC for the additional costs.

Before the request [Jon Andersson] and Cai Dong had agreed upon a Memorandum of Understanding (MoU) for painting and welding of cabs from the Jinan Hua Wo Truck Corporation. The Memorandum of Understanding was signed 10 of January 2004.

In the MoU the parties concerned undertakes the following:

- CNHTC guarantees that they will have the capacity to paint up to 5000 cabs annually for Hua Wo
- CNHTC agrees to follow the global requirements from Volvo according quality, and undertake appropriate changes if there are any deviations
- Representatives from Hua Wo will randomly conduct inspections of the painted cabs, and communicate the result of these tests to CNHTC
- Representatives from Hua Wo will continually inform CNHTC about the paint process and any possible improvements of painting quality
- Hua Wo will compensate CNHTC for the cost of the operation; however, the compensation will not include any profit for CNHTC
- The legal departments of CNHTC and Hua Wo will design a contract in accordance with the MoU

**Figure 40: Section about M o U Painting and Welding of Cabs from: “Minutes of Extra Board Meeting Jinan Hua Wo Truck Corporation 济南华沃卡车有限公司董事会纪要” held 16 of February 2004 (Re-written version by Åsa Käfling 15 of March 2004)**

The M. o. U. was signed 10 of January 2004 in an informal meeting between the two executives, and a Volvo designed template was used for the occasion.

In the January joint venture executive committee meeting, ten days after the signing of the M. o. U., the Hua Wo president informed the members of the JV executive committee meeting about the status and development of the painting and welding procedures:

**Jon Andersson (Hua Wo):** *We also have the minutes of understanding between China National and us, where they confirm that they will paint 5000 cabs per annual 2004, 2005 and 2006. And there is also stated that they will follow the Volvo requirements, and if not they will adjust. That is the minutes of understanding only, we are now, after the Chinese New Year, we will go to the lawyers and make a real contract.*

[...]

**Carl Stiernström (Commercial side):** *When do we see that the FM cab welding and painting can start up?*

**Jon Andersson** (*Hua Wo*): *If we get the money we can say that we can probably do it August*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 20 January 2003 (from transcribed MD-recording)

The only formal decision (about the painting and welding operations) taken in the January meeting was that the M. o. U. was to be converted to a legally binding contract. The joint venture executive committee meeting members also agreed on that an extra joint venture board meeting concerning the painting and welding operations should be held.

### **Extra board meeting concerning painting and welding operations**

In February an extra joint venture board meeting was held in order to decide on the amount of capital that was to be invested in the painting and welding facilities.



[Jon Andersson] presented the time-plan of the request (see attachment). Due to the availability to the new building for welding purposes, it is possible to shorten the adaptation time from about four months to three. The delegates from CNHTC, *Cai Dong* and *Wang Shanpo*, confirmed that this time frame would be sufficient for the adaptation needed.

#### Decisions:

The Jinan Hua Wo Truck Corporation board unanimously decided that:

- Cai Dong and [Jon Andersson] have the responsibility to prepare a contract in accordance with the Memorandum of Understanding (MoU)
- In the contract should be stated a solution on how to paint the cabs after 2006, if the capacity CNHTC can provide is not large enough
- A new contract, and/or possible amendment to the main joint venture contract, according the rent of facilities for welding operations has to be prepared
- A project team with representatives from CNHTC, VTC and Hua Wo should be established for the construction of welding- and painting facilities. The project team consists of:

Mr Yan Ying, Director CNHTC Design Institute

Mr Bertil Johansson, Manager VTC International Manufacturing

Mr Li Yansuo, Production Manager Hua Wo

- No investments, or costs concerning painting and welding operations, would be accepted before the above mentioned, contracts and/or amendment to the main contract have been approved by CNHTC and Volvo

**Figure 41: Section about Decisions taken at Extra Board Meeting from: “Minutes of Extra Board Meeting Jinan Hua Wo Truck Corporation 济南华沃卡车有限公司董事会纪要” held 16 of February 2004 (Re-written version by Åsa Käfling 15 of March 2004)**

In the extra board meeting a capital request in order to facilitate panting and welding operations was brought forward by Hua Wo management team. The board meeting members unanimously decided to go through with the painting and welding operations planning. Further, the suggestions of the Hua Wo management team to create a painting and welding project team consisting of CNHTC, Volvo and Hua Wo representatives, was approved of. Concerning the investments, the Volvo Trucks’ representatives were very clear on the point that unless a contract was produced no capital contribution would take place. (Original Extra Board Meeting Minutes 18 of February 2004).

In the joint venture executive committee meeting in February the issue of painting and welding operations was once again a bullet point on the agenda.

*Carl Stiernström (Commercial side): Then we have this painting and welding of cabs*

**Jon Andersson (Hua Wo):** *Yep. There we had first of all we have had these minutes of understanding, signed by me and Cai Dong. We are also working on the contract for this we are going to use a contract that we use in other areas like Malaysia, Thailand as a base for our discussions. We have gone through it and we see no problems that we will not be able to finish it soon.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 19 February 2004 (from transcribed MD-recording)

The importance of a legally binding contract was stated once again, but since such a contract still did not exist the discussion about activity was postponed to the next meeting.

#### **6.10.4 The painting and welding contract presented - half a year later**

Not until in October the issue of the painting and welding contract was discussed again. The president of Hua Wo was unable to attend in the April meeting, and in June the representatives had other issues on their mind. In October most of the preparations for the painting and welding facilities had already taken place. Since the Hua Wo president did not attend this meeting either (a result of not getting the summons to the meeting), the status of the painting and welding operations were not covered in depth. It was clear that a painting and welding contract had been produced, but the important issue of level of investment was not included.

**Carl Stiernström (Commercial side):** *Should we then take those points if we start with the cab*

**Gunnar Eriksson (Industrial side):** *Cab*

**Carl Stiernström (Commercial side):** *That's fine – we, I have received this today. I must say I have not studied it deeply, one thing I saw when I went through it and that is no, of course the most interesting page was the one that I flipped up first was blank – which is what the cost is to paint the cabs.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 25 October 2004 (from transcribed MD-recording)

During this meeting it was the commercial side representatives that were prompting the issue with the contract. In the end the responsibility to review the painting contract was given to the VP of Chinese sales, Benny Wen. The Hua Wo president Jon Andersson, although not attending the meeting, was to present a cost summary to the next joint venture executive committee meeting.

### 6.10.5 Later developments

After the joint venture executive committee meeting the painting and welding operations establishment activity became divided into two different tracks. At the same time as the contract was not finalized until 15 December 2005 the planning and establishment of the painting and welding operations continued during 2004. When it came to the painting process the actual operations started in the summer of 2004 when the painting was approved of by the VTC painting expert. Even though the painting process was established very few Volvo trucks were painted during 2005<sup>62</sup>.

That the contract became so much delayed seemed to be the result of a combination of reasons. Firstly VTC did not think that the painting and welding activity was of vital importance, since very few trucks were assembled in Jinan. Secondly, as a discussion about introducing “the Chinese Volvo” was held within VTC, thoughts of including the painting and welding contract in this agreement were brought forward and somehow the issue fell between seats in this process. When the contract was finally signed, by the president of Hua Wo, Jon Andersson, and the chairman of CNHTC, Cai Dong, it was not forwarded to the VTC organization.

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<sup>62</sup> CNHTC used the painting factory for the painting of the Ho Wo truck instead; and later used the argument that the Ho Wo cabs were “*painted in the same process as Volvo paints their cabs*” in their advertising



**Figure 42: Picture from the Hua Wo painting and welding factory taken in February 2006**

## 6.11 CNHTC's Ho Wo Truck Marketing

*“Party B [VTC] undertakes that the JV Company will lease a set of FL cab tooling and dies urgently required by Party A [CNHTC] to be used by Party A for a period of three years at zero rental, in accordance with the agreement. Upon experience of the aforementioned three years period, the FL cab tooling and dies will be given to Party A without consideration. Party B will furnish the FL cab technical information to Party A without consideration” (Main Joint Venture contract p6: §5.3.1 section three)*

When it became known that the Chinese partner to the joint venture, CNHTC, was marketing a mock-up truck called Ho Wo as “completely Volvo produced” this was a problem for the joint venture executives.



**Figure 43: Two Ho Wo of the “old design” and a Volvo FM truck (c.f. Figure 44)**

The background to the Ho Wo truck was the joint project known as FL-Steyr that Volvo and CNHTC had cooperated on before 2000. In this project, the aim was to create a small, light, vehicle based on a Volvo cab and CNHTC Steyr chassis. The truck was developed over a period of several years and when it terminated several mock-up trucks had already been produced. When the negotiations process started again in 2001 CNHTC demanded that the truck dies that produced the cab for the joint product should be a part of the deal.

*“We should not forget that it is not just a Volvo cab. Between 1996 and 2000 we had Volvo designers here that built trucks, built them here and in Beijing a number of trucks were the start of this. They had the same base, the cab was mounted in the same way. We should not forget that this is the result of joint designing. The aim of the project was to develop a joint truck. Then China National maybe did it in a better way than we, Volvo had expected, because the truck is a bloody cool truck. Okay, it is maybe a bit unnecessary to have the same rear view mirrors, a bit nasty to have the radiator so that if you look from a distance you think, by God it is a Volvo! That is to take it a bit too far, I think. But still, it is within the limits.”* (Quotation Hua Wo Executive, February 2006, translated from Swedish)

After the joint venture agreement was reached in the summer of 2003 the dies were immediately shipped to CNHTC. It was these dies that facilitated the Ho Wo mock-up truck that became known to the Volvo joint venture executives in January 2004.

### 6.11.1 First meeting

The first time that problems concerning a mock-up truck from CNHTC were mentioned in the joint venture executive committee meeting was in January. The issue was brought up as a contribution to the discussion about when to inform CNHTC about the future MHD truck production. When the Hua Wo president Jon Andersson emphasized the importance of being open towards CNHTC, the representatives from the commercial side disagreed. As an example of CNHTC being far from honest in the relationship with VTC, the mock-up truck, known as Ho Wo, was brought up. If CNHTC would decide to manufacture this truck, as it looked in the folder Volvo Truck had come across, it would clearly be a trademark issue for Volvo. In addition, the brand name of Ho Wo was an allusion to both Hua Wo and Volvo.

**Carl Stiernström:** *Can we talk about cabs just another issue about cabs? We have received here a kind of mock up folder of a CNHTC bastard truck. Hybrid sink with a Mercedes star in the Volvo grill in the front. Then I heard that we should disregard those photos and have new photos?*

**Jon Andersson** (mumbling): *Yes we can disregard those photos because just one issue was made.*

**Carl Stiernström:** *But if we want to send a signal to CNHTC we can, if the real proposal whenever that comes looks anything like this, we will have an issue. Right!*

**Jon Andersson:** *I think that has to come from [Benny and Jacob]*

*[...]*

**Jacob Wall:** *So how do we handle that?*

**Jon Andersson:** *We can do it the official way or I can talk to Cai Dong.*

*Carl Stiernström: Let Jon talk to Cai Dong first and see what come first, we are not acting on this first proposal that have come here. Very good*

Extract from Telephone Conference Joint Venture Executive Committee  
Meeting 20 January 2004 (from transcribed MD-recording)

In order not to jump the gun, if not necessarily, the president of international sales Carl Stiernström suggested that the Hua Wo president should talk informally to the general manager of CNHTC about the Volvo standpoint.

### **6.11.2 The situation escalates**

In the meeting in February the issue of the CNHTC mock-up truck was discussed again. Since the meeting in January the Hua Wo president and Benny Wen VP of Chinese sales had informed the CNHTC GM, Cai Dong, during an informal meeting. After consulting the VP of VTGC and his superior, the president of international manufacturing, the Hua Wo president had also sent a formal letter where he explained the Volvo position.

In addition, the president of international sales Carl Stiernström had written a letter with the official opinion of the matter of VTC, namely that CNHTC had committed an offence against the Volvo trademark. This letter, which also had Cai Dong as recipient, was faxed from the legal department of VTC to CNHTC. In the letter VTC offered CNHTC assistance to design a truck that did not cause any infringements of the trademark agreements.

When discussing how to proceed in the matter in the meeting it was clear that the Hua Wo president would have liked to pass the issue over to the commercial side of VTC. The president of international sales, Carl Stiernström, was hesitant about this and wanted the issue to be coordinated between the both sides. As a compromise, the VP of Chinese sales, Benny Wen, was made responsible for following up the development of the Ho Wo truck at the same time as the president of international manufacturing, Kent Svensson, promised to make sure that a person from the Volvo Truck design department would look into the matter.

**Carl Stiernström** (Commercial side): *Okay, Communication with CNHTC according ... Ho Wo? I guess that you mean this small truck that looks like a FM. Yes what I know about I yesterday signed a letter in Chinese which I didn't know the content of and one in English that I pretty well know the content of. It is a letter drafted for [Benny] which has been through all the bloody courts you can imagine, including Legal here, and Rickard Orell and everyone that is involved here. It is ready now, it has been faxed to Kaj Dong today or yesterday from Legal, VTC and that is our official, our official opinions about this design and trademark and everything. We also suggest in this letter that we elect a person from our design department here as a link in communicating with CNHTC's design department in order to carry out the necessary changes in order to create an acceptable design. And this letter is sent by fax and will later be sent in the original by a courier and I know that Benny will talk to Kaj Dong about this result and how we should proceed. So we don't only say no, but we say "what do we do now". So we can proceed.*

Extract from Joint Venture Meeting 19 February 2004, (from transcribed MD recording), translated from Swedish

After some more discussions about the CNHTC truck, the participants in the meeting selected a person from the design department to be contact person with CNHTC. Since the executives were not clear about how the issue should be handled if it was made public, they agreed that the head of Volvo Trucks' public relations should also be involved.

In the meeting in March, the Ho Wo issue was one of the last items on the agenda. Since the meeting in February the joint venture executives had no further information about the status and development of this matter. This was mostly because Volvo had not received any response from CNHTC about the offer of design aid. From the Volvo side the person appointed from the design department had agreed to assist CNHTC in designing the new truck model. Since the GM of CNHTC, had not responded to the letters sent by VTC and Hua Wo, it was decided to approach CNHTC again.

**Carl Stiernström** (Commercial side): *Yes, I have to admit that I don't really know what has happened. I don't know where we are, in this issue now.*

[...]

**Jon Andersson** (Hua Wo): *I can take it on me to investigate how this issue stands*

Extract from Joint Venture Meeting 22 March 2004, (from transcribed MD recording), translated from Swedish

After discussing the issue the participants agreed that it was unwise that the appointed manager from the design department should visit CNHTC on his own.



Since he knew little about the current status of the relationship between VTC and CNHTC, and even less about the Chinese automotive market, he should be accompanied by someone from the commercial side of Volvo Trucks in China, the executives argued:

***Carl Stiernström** (Commercial side): It is better that we are in control, when Rickard comes there, there must be someone from the Volvo side in China to hold his hand, so to say when he waltzes into the CNHTC world there. I suggest that Jon speaks to CNHTC in order to decide a suitable time for Rickard to go down there and meet some counterpart from CNHTC and start this discussion.*

***Jon Andersson** (Hua Wo): Yeah*

***Carl Stiernström** (Commercial side): And then you can decide, you and Jacob, who should participate in this meeting from the Volvo side. Someone that understands all these twists and ... I mean Rickard understands the design but he doesn't understand the political situation Volvo- CNHTC, he should not be allowed to be alone there.*

***Jon Andersson** (Hua Wo): No, it is probably important that it is not only... but also someone like [Benny or Jacke] is in this. Because there are so many twists and turns in this that I cannot, for myself, really...*

***Jacob Wall** (Commercial side): (interrupts) And I think it should be a Chinese that participates, that could answer the questions, listen to what is happening and understand. If [Benny] could participate it would be really good, otherwise we have to take someone else.*

Extract from Joint Venture Meeting 22 March 2004, (from transcribed MD recording), translated from Swedish

In the March meeting it was decided that the Hua Wo president should be responsible for making sure that the representatives for the CNHTC and Volvo design departments should meet and reach an agreement on the design of the Ho Wo truck. At the same time, the responsibility for the whole issue of the mock-up truck was shared with the commercial side, since the president of Asian and Chinese sales Jacob Wall was responsible for appointing a representative from the VTGC organization to accompany the representatives from the design departments in their contacts with CNHTC.

### **6.11.3 The Ho Wo issue is satisfactorily solved?**

In the joint venture executive committee meeting of April, the president of international sales reported that the issue of the mock-up truck had been satisfactorily solved. Since the meeting in March, VTC had received a new draft of a truck design where the design of the Ho Wo truck has been modified in a way that it did not give Volvo any worries about trademark infringements. The representative from the Volvo design department had approved the design of the new CNHTC truck.

**Carl Stiernström** (Commercial side): *If you looked on this, it looked completely different. It was not the same kind of Volvo design, so we have also addressed the trade mark issue. In my world this item is now closed.*

Extract from Joint Venture Meeting 27 April 2004, (from transcribed MD recording), translated from Swedish

### Opening up the Ho Wo Case Again

In the extra joint venture executive committee meeting in late June the decision to stop the packing of truck kits to Hua Wo was taken. As a consequence, very few trucks were produced. Since the factory had a large spare capacity CNHTC inquired whether the new FL Steyr truck, also known as the Ho Wo truck, could be assembled in the factory.

Not very surprisingly, the Volvo executives turned the suggestion down. The Ho Wo truck had already been marketed as a Volvo truck, with a design similar to a Volvo FM and a Volvo clinging name. If it was to be manufactured in a Volvo factory it would be impossible to prevent the customers consider it as a Volvo truck. As the Volvo executives did not want to have a conflict with CNHTC over this issue, the official reason behind the rejection was that since the production of the joint venture had stopped, it would not be possible to start production again only to produce FL Steyr trucks for CNHTC.

**Gunnar Eriksson** (Industrial side): *Okay the third bullet point you raised Carl was the request for CNHTC for pre-production (laughs)*

**Carl Stiernström** (Commercial side): *For my point of view, that thing for the moment is –as long as the JV stops then definitely we are not starting it just to build the CNHTC product that's clear.*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 25 October 2004 (from transcribed MD-recording)

After this decision had been taken, the VP of Chinese sales, Benny Wen, added that CNHTC already has started to market the FL-Steyr as a Hua Wo truck. Furthermore the FL-Steyr was described as a “*complete Volvo truck*” by CNHTC in their press material. Benny Wen also told the executives that representatives from the VTGC organization had complained about this, without result. The GM of CNHTC, Cai Dong, had even confirmed that the marketing campaign of the truck would continue.

The president of international sales, Carl Stiernström, reacted very strongly to this information. He was upset that the issue, which he considered as solved, had been brought up again. After some discussion between the commercial side executives it was decided that Volvo should take official actions against the marketing of the FL

Steyr truck as a “complete Volvo truck”. Nevertheless, before any official actions were taken, a letter from the president of international sales, drafted by the VP of Chinese sales and the Baker & McKenzie lawyer were to be sent to CNHTC. In this letter the displeasure of Volvo towards the development of the issue should be clearly stated.

**Benny Wen** (Commercial side): *The introduction of the Ho Wo truck - all the media are ready*

**Carl Stiernström** (Commercial side): *That was not very nice of CNHTC to do that*

**Benny Wen** (Commercial side): *We assume that it comes this week already*

**Carl Stiernström** (Commercial side): *They have started to market it under this name already, which we said that they should not?*

**Benny Wen** (Commercial side): *They already market it as such, we mentioned it last week and the week before and then they publicly announced that. Our business intelligence says they are introducing it next month*

**Carl Stiernström** (Commercial side): *What you say is that CNHTC officially announced that there is a whole Volvo*

**Benny Wen** (Commercial side): *Yes, yes*

**Carl Stiernström** (Commercial side): *(mockingly) That's nice – thank you very much*

Extract from Telephone Conference Joint Venture Executive Committee Meeting 25 October 2004 (from transcribed MD-recording)

#### 6.11.4 Later developments

The FL-Steyr truck, called Ho Wo, became a tremendous success for the CNHTC organization.

During the time that Hua Wo had to cancel its operations, CNHTC managed to manufacture and sell 10 000 trucks. The Hua Wo management was invited, and attended, the celebration festivities when truck number 10 000 was taken off line.



**Figure 44:** Picture taken when the first official Ho Wo truck (of the new design) was taken off the assembly line (28 October 2004)

*Source:* CNHTC documentation, <http://www.cnhtc.com.cn/en/index2.htm>, accessed 16 September 2008)

## 7 Categorizing Activities

When bringing together the impressions from the activities of the joint venture executive committee meetings, a series of events, discussions, conflicts and considerations emerges.

However, when comparing the activities with each other one finds that the activities can be seen from three different perspectives. Activities can be analyzed from the perspectives of *when*, *by whom* and *why* they were discussed.

### 7.1 Activities Sorted by Duration

When analyzing the activities of the executive committee meeting from a time perspective, two types of activities can be identified. Activities which were of a project type, carried through during a restricted period of time, and activities similar to routines, carried through during an extended time period.

<i>Restricted time activities</i>	<i>Extended time activities</i>
Homologation	Engine JV
MHD truck marketing	Production Planning
Inauguration	Product cost calculation
Ho Wo truck	3P sourcing
Painting and welding	

**Table 2: Restricted and extended time activities**

#### **Restricted time activities**

Five activities took place during a limited time period of the JV operations phase.

1. *Homologation*. The homologation activity started when the JV was approved and was finished already in March 2004. As a result of new legislation, it was later re-opened.
2. *MHD truck marketing*. This MHD truck marketing was initiated during the start-up phase but terminated already in March 2004.
3. *Inauguration*. The inauguration activity was officially terminated when the inauguration festivities had been held 31 of March 2004.
4. *Ho Wo truck*. This activity was closed in April 2004, when an agreement was reached between the VTC and CNHTC about the design of the Ho Wo truck.

5. *Painting and welding establishment.* The painting and welding activity was finished when the workshop was ready to be used in the summer of 2004.

### **Extended time activities**

Four activities were carried through during a longer period of time. These activities were constantly discussed during the start-up and operations phase of the JV.

1. *Engine JV.* The engine JV activity was initiated before Hua Wo was approved and not terminated until December 2005.
2. *Production planning.* Production planning was constantly carried through during the entire JV operations.
3. *Product cost calculation and financial planning.* Also product cost calculation and financial planning were considered during the entire time of Hua Wo operations.
4. *3P sourcing.* Sourcing to the JV was an important activity which was discussed, more or less constantly, during the entire Hua Wo lifetime.

### **Conclusion of the impact of duration on activities**

It seems like there are no clear relationship between duration and performance for the joint venture activities. One restricted time activity, homologation, was viewed as relatively successful by the joint venture executives, and one restricted time activity, the MHD truck marketing, was viewed as unsuccessful. For the other restricted time activities different stakeholder viewed the performance of the activities differently.

In the same way the extended time activities were viewed both as successful and unsuccessful.

## **7.2 Activities Sorted by Stakeholder Involvement**

Another way of sorting the activities is by the stakeholders involved. From this perspective three different groups can be identified:

Firstly, there are the activities dealt with by Volvo Trucks as if the joint venture was a wholly owned enterprise. I have chosen to call this group “*Single Partner’s Managed Activities*”. Here the *MHD Truck Marketing*, *Production Planning* and *Product Cost Calculation and Financial Control* activities are found.

Secondly, the activities *Inauguration* and *CNHTC’s Ho Wo truck* were managed in the interface between the joint venture partners. I have called this group “*Joint Venture Partners’ Managed Activities*”.

The third group of strategic activities, “*Multiple Stakeholders’ Managed Activities*” are the activities that were handled in an interplay of several different actors, both joint venture owners and other organizations. Here four activities are found, namely: *Engine Joint Venture Establishment*, *Homologation*, *3P Sourcing* and *Painting and Welding Operations Establishment*.

Single partner’s managed activities	Joint Venture partners’ managed activities	Multiple Stakeholders’ managed activities
✓ MHD Truck Marketing ✓ Production Planning ✓ Product Cost Calculation & Financial Control	✓ Inauguration ✓ CNHTC’s Ho Wo Truck Marketing	✓ Homologation ✓ Painting and Welding Operations Establishment ✓ Engine Joint Venture Establishment ✓ 3P Sourcing

Table 3: Management activities categories

Single partner’s managed activities

The activities *MHD Truck Marketing*, *Production Planning* and *Product Cost Calculation and Financial Control* were managed as if Hua Wo was a wholly owned subsidiary of Volvo Trucks. These three activities were also those most closely related to the so called “*Volume goal*” of VTC. In order to achieve the volume goal of Volvo Trucks three things were considered important: to market a truck that the market demanded, to plan the production of the trucks and to control the costs related to the production of trucks. To summarize; three of essential activities for achieving the aims with the joint venture were managed by the Volvo partner alone.

The *Singe Parent’s Managed Activities* were characterized by three things:

Firstly, these activities were managed from the start by Volvo Trucks alone. The joint venture partner CNHTC had no means of influencing any of the three activities of *MHD Truck Marketing*, *Production Planning* or *Product Cost Calculation and Financial Planning*. However, when the joint venture started its operations the Hua Wo general management took part in the production planning process.

Secondly, the *Single partner’s managed activities* were mostly operational. Even though production planning and product cost calculation were considered to be very important, these activities were to support the manufacturing and sales of trucks. The sale of trucks was not discussed to any great extent in the joint venture executive committee meetings, with the exception of the marketing of the MHD truck. This activity was the only activity which was discussed directly in relation to the original volume goal of the joint venture. Taken together, a lot of time and

effort was put into the operational activities. When the *MHD Truck Marketing* activity was terminated in March 2004, the *Production Planning* and *Product Cost Calculation* were carried through from the planning to the re-orientation of the joint venture. A whole joint venture executive committee meeting was even devoted to *Production Planning*.

Thirdly, the *Single partner's managed activities* were discussed predominantly as a result of the information and coordination needs between the different VTC executives. This was especially apparent from the direction of the activities changing rapidly from one meeting to another. The *MHD Truck Marketing* activity was the result of the need for a smaller truck that would fit the Chinese automotive market. Nevertheless, when this activity was abandoned it was because the cost had become too high. In addition, unclear legislation made the business case of the MHD truck even more insecure. The background to the other two single parent activities was the aim for coordinating the *Production Planning* and *Product Cost Calculation* of the joint venture, even though the change in legislation also influenced the management of these activities.

### **Joint partners' managed activities**

The activities: *Inauguration* and *CNHTC's Ho Wo Marketing* dealt almost exclusively with the relationship between the parent organizations of the joint venture. The *Joint venture partners' managed activities* had only an indirect bearing on the articulated goals of the joint venture.

The *Joint Venture Partners' Managed Activities* were characterized by the fact that they took place in the interface between the joint venture partners VTC and CNHTC.

It is important to note that both the *Inauguration* and the *Ho Wo Truck Marketing* were considered to be important for Volvo, and that both of these activities were managed through negotiations between VTC and CNHTC. For the *Inauguration*, it was mainly relationships to the public, press and politicians that were in focus. The basis for the discussions about the *Ho Wo Truck Marketing* was instead VTC internal considerations, the value of the Volvo brand was on top of the agenda.

Nevertheless, none of the joint venture parents' managed activities were directly related to the goals of the joint venture. Neither the volume goal<sup>63</sup> nor the sourcing goal was affected by these activities, apart from the possible consequence that the inauguration took time from the production.

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<sup>63</sup> The Ho Wo truck was not a direct competitor to the trucks produced by VTC since it was a lighter type of commercial vehicle



Instead, the reasons for the discussions in the joint venture executive committee were control and stakeholder relations related. For the VTC commercial side executives, especially controlling these two activities was important. The general management of Hua Wo had little influence on any of these activities. For the *Inauguration* activity, this lack of influence resulted in a conflict with the Volvo Trucks Greater China organization.

### **Multiple stakeholders' managed activities**

When analyzing the *Multiple Stakeholders' Managed Activities* two subgroups can be identified. Two of the multiple stakeholders' managed activities, namely the *Homologation* and *Painting and Welding Operations Establishment*, were managed by the parent organizations and the general management of the joint venture. Two activities, the *Engine Joint Venture Establishment* and *3P Sourcing* activities, took place in the interface between the parents of the joint venture and the sourcing organizations.

The *Multiple stakeholders' managed activities* characteristics were:

Firstly, that several organizations were involved in managing the strategy and operations of these activities. The activities managed in the interface between the parents and the general management of the joint venture, *Homologation* and *Painting and Welding Operations Establishment*, were coordinated by the general management of the joint venture, with the assistance of VTC and CNTC. The activities that involved the supplier organizations, the *Engine Joint Venture Establishment* and the *3P Sourcing Activity*, were instead influenced by a large number of stakeholders.

Secondly, that the *Multiple stakeholders' managed activities* were greatly affected by political influence, through change of legislation. This holds true for all the multiple stakeholders' managed activities.

### **7.3 Activities Sorted by Focus of Discussion**

A third way of sorting the activities is by the focus of discussion. When summarizing the discussions of the joint venture executive committee meeting, four reasons for the discussion of the activities can be identified namely: the goals of the activity (the volume and sourcing goals), control (though information and/or coordination needs), stakeholder relations and political influence (e.g. change of legislation). Often the reason for discussing the activity changed over time.

Focus of discussion:

- *Goals* consists of the “Volume goal”, the proclaimed aim of VTC to reach 10,000 sold trucks before 2008, and the “Sourcing goal,” the aim to create an industrial platform for sourcing in China in order to reduce the cost of truck production
- *Control* means the sense-making that took place in the joint venture meetings where the aim was to update the participants, communicate the status and agree on shared approaches.
- *Stakeholder relations* is defined as when the executives coordinated their response toward other stakeholders
- *Political influence* refers to the uncertainties caused by new legislation.

### **Focus of discussion for Single partner’s managed activities**

The category of *Single Partner’s Managed Activities* consists of two types of activities, where *Production Planning* and *Product Cost Calculations* were to support the sales and marketing of trucks. While the *MHD Truck Marketing* activity was market related, the other two activities were initiated as a result of the need for coordination. During the different joint venture executive committee meetings, the reason for discussing the activities changed:

The first time the *MHD Truck Marketing* activity was discussed in the joint venture executive committee meeting the reason that the activity was brought up is the volume goal of VTC. During the joint venture executive committee meetings this activity was further discussed as information and coordination issues arise. In addition, the unclear legislative framework resulted in discussions took place several times during the joint venture executive committee meetings. However, when the activity was abandoned it was once again the volume goal that was referred to.

*Production Planning* was an activity which was important for the VTC stakeholders from a coordination perspective. When the activity was resumed, this was a result of the change in legislation. Since the market for heavy duty truck changed, the production planning processes also had to be altered. Nevertheless, for this activity, control through coordination efforts was the most important reason focus of the discussion.

The *Product Cost Calculation* activity was also discussed as a result of the need for coordination. In addition, the change of legislation also influenced this activity and gave rise to discussions in the joint venture executive committee meeting. Nevertheless, for this activity control through coordination was the most important reason for discussion.

Analyzing the influence of time on the focus of discussion for Single parent managed activities, the largest difference between the activities *extended in time*, compared to the *restricted time activities*, were that they were not discussed in relations to the *volume goal* of the joint venture. In addition, *control* was a more common focus of the extended time activities, than for the restricted time activities of the Single partner's managed activities category.

### **Focus of discussion for Joint venture partners' managed activities**

The category of *Joint venture partners' managed activities* was characterized by the fact that none of these activities had any direct bearing on the joint venture or its operations, instead both activities were primarily motivated by coordination needs toward stakeholders and the wish for control. None of these activities were related to the volume or sourcing goal of the joint venture. Both JV partners' managed activities were conducted during a restricted time period.

When the *Inauguration* activity was initiated it was viewed as an update and information issue. However, during the discussions in the joint venture executive committee meetings, the character of the discussions changed and became more stakeholder oriented.

Moreover, the *CNHTC's Ho Wo Truck Marketing* activity discussions was also greatly influenced by the VTC desire for control. In addition, stakeholder relations played a vital role.

### **Focus of discussion Multiple stakeholders' managed activities**

For the category of *Multiple Stakeholders' Managed Activities* control as well as the impact of the new legislation played an important role for all the activities. Here too the arguments to discuss the activities altered, during the joint venture executive committee meetings:

*Homologation* was discussed mostly as a result of the need for control such as coordination. However legislation was also important. When the homologation activity was brought up again in June it was a result of the change of legislation.

The change in legislation was also a vital reason for discussing the *Painting and Welding Operations Establishment* activity. For this activity a stakeholder relations perspective as well as control needs were later added to the discussion.

From the beginning, the *Engine JV Establishment* was also discussed from a control perspective. That the engine joint venture facilitated reaching the sourcing

goal was also taken into account. When the change in the automotive policy provided VTC with guidelines for local sourcing, legislation became an important reason for discussion. Further the Engine JV activity was discussed from a legislation perspective as a result of the automotive policy impact on the activity. Finally, coordination toward stakeholders was also an important focus of discussion.

The *3P Sourcing* activity was caused by control needs and the aim for information and coordination. However, this activity soon became important for Volvo Trucks from a stakeholder relations perspective. The importance of the 3P Sourcing activity was later reduced as a result of the new legislation, which in its turn was a result of the reduction in the heavy duty truck market.

From the perspective of duration, it is clear that the extended time activities (of the Multiple stakeholders' managed activities) were discussed more in relations to the *sourcing goal*, than the restricted time activities.

## **7.4 Case Summary**

Striving to gain control (such as information about and the coordination of activities) was by far the most common focus in the discussion of activities in the meetings. Stakeholder relations and political influence through new legislation were also common foci of the activities.

*Internal control*, through information and coordination needs was in focus in most of the discussions of the activities. In all the three groups, Single partner's managed activities, Joint partners managed activities and Multiple stakeholders' managed activities, as well as in each activity, internal control was the most usual focus for the discussions.

*Stakeholder relations* were in focus of many of the JV partners' managed activities and Multiple stakeholders' managed activities.

*Political influence* through change in legislation was an important factor that gave rise to many of the discussions of the Single partner's managed activities and Multiple stakeholders' managed activities. Furthermore, the change of legislation led to discussions in each and every one of the activities of these groups.

*Goals* were in focus for few of the activity discussions. The *Sourcing goal* was a direct reason for discussion in two of the Multiple stakeholders' managed activities (Engine JV Establishment and 3P Sourcing) and indirectly for one of the Multiple stakeholders' managed activities (Painting and Welding Operations Establishment). None of the other activities were discussed from the perspective of reaching the sourcing goal.

The *Volume goal* initiated discussions only in one of the Single partner's managed activities (the MHD Truck Marketing activity). The volume goal gave not rise to discussions either in the case of the joint venture partners' managed activities or for the multiple stakeholders' managed activities.

### **Case findings and further development**

The findings from the case suggest that three issues should be taken into consideration when analyzing joint venture perceived performance.

Firstly, four important foci of discussion can be identified. These are control, stakeholder relations, political influence and goals. In chapter "8 *Re-Conceptualization*" these foci are discussed and combined into a new elaborated model for performance. In chapter "11 *Concluding Discussion about JV Performance*" the importance of these foci for perceived performance will be analyzed.

Secondly, the number of stakeholders involved, differ between the activities. Three groups have been identified: Single parent managed activities, JV partners' managed activities and Multiple stakeholders' managed activities. These groups will be used in the analysis "9 *Elaboration of Perceived Performance*". In addition, the influence on performance of the three management groups will be analyzed in "11 *Concluding Discussion about JV Performance*".

Finally, the activities have been shown to differ when it comes to duration. In addition activities have been shown to change over time. To conclude, activities can be classified as restricted (of a project type) and extended (similar to routines). However, the relationship between duration and perceived performance is not clear as yet. How activities change over time will be analyzed in "9 *Elaboration of Perceived Performance*". Finally, the importance of the duration aspect on perceived performance will be discussed in "11 *Concluding Discussion about JV Performance*".



## PART IV. PERCEIVED PERFORMANCE – THE ELABORATED MODEL





## 8 Re-Conceptualization

When comparing the case with the core concepts, *Motives behind IJV Formation*, *Partner Selection*, *Control* and *Performance* from the theoretical framework both similarities and differences appear.

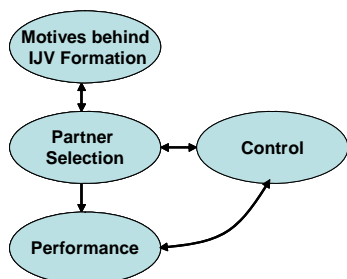
Theoretical Underpinnings Sino-foreign joint ventures*	Findings from Hua Wo Case
<b>Motives and goals</b>	
Joint venture partners can have different motives for their establishment. The stakeholders within a partner organization share the same goals with the joint venture.	Motives and goals differ between executives within the partner organizations, between the general management of the joint venture and the foreign partner, and between partner organizations and suppliers.
Motives of the foreign partner are constant and universal:  Foreign partners want to achieve higher market share, profit, knowledge and learning, low labor cost and local sourcing through their joint ventures.	The motives and goals of the foreign partner changed over time: Foreign partner originally wanted higher volumes, but goals underwent exogenous and endogenous change. Sourcing was later added as a main goal and gradually took over from the volume goal.
Motives of the domestic partner are constant and universal: Domestic partners want to achieve technology adaptation, managerial skills, profit, export and knowledge and learning through their joint ventures.	The motives and goals of domestic partner changed over time: Domestic partner originally wanted financial rescue. Financial support was later exchanged with technological know how as main goal.
<b>Partner selection and partner relations</b>	
Partners must be able to determine if parents together possess necessary capabilities for joint venture to succeed.	The domestic partner was the “only choice” for cooperation.
The complementarities of the strategic goals, is an important task related selection criteria.	The domestic partner was not important in order for the joint venture to achieve its strategic goals.
Trust, learning and resourcing are important partner related selection criteria.	Trust and learning was subordinated control for the JV partners. Resourcing was not handled by the joint venture parent organizations.
<b>Control</b>	
Partners use control mechanisms in order to encourage certain behavior, so called positive control, and/or prevent certain actions, so called negative control. Positive control is superior to negative control.	Control was an important issue especially for the foreign partner. The foreign partner relied heavily on, and preferred negative control.
Control extent is different between JVs: A JV can be a dominant parent joint venture, a shared management venture, an independent joint venture or a split management venture.	The joint venture seems not to fit into any specific management control category, as stakeholders view JV differently.
Joint venture partners have different aims with their control focus. Foreign partners usually want to have over all control and direct the whole range of activities. Domestic partners want to have control over specific activities.	Foreign partner originally had over all control but later became dependent on supplier organizations. Domestic partner had from the beginning little control but later control focus was enlarged.

\* From Killing (1983), Contractor and Lorange (1988), Yan and Gray (1994), Buckley and Glaister (1997; 2002), Luo (1997; 1998), Si and Bruton (1999), Luo et al (2001) and Child and Yan (2003)

**Table 4: Summary of theoretical underpinnings versus implications of Hua Wo case study**

The basic integrative model from the theory chapter deals with the concepts of *Motives behind IJV formation*, *Partner selection* and *Control* as determinants of *JV performance*. For a summary of the findings from the JV literature, see section “4.5 Concluding Remarks on the Key Concepts of Perceived Performance”. The case, however, suggests that in addition to these concepts, political influence and stakeholders relations are influential. This finding which is shown in section “7.3

*Activities Sorted by Focus of Discussion*”, will serve as input to the “8 Re-Conceptualization” chapter.



**Figure 45: Modified Parkhe (1993) model**

The empirical findings also indicate an opportunity for further conceptual development of the original concepts since not all empirical regularities (e. g. with regard to control) are covered in the conceptual model described in *Figure 45*.

### 8.1.1 From motives to goals

During the joint venture executive committee meetings the motives behind the establishment were not discussed at all in the meetings. The strategic goals of the joint venture were instead very different from each other:

- The original goal of the joint venture, “*the volume goal*”, was to be reached through a *Single partner’s managed activity* (namely the *MHD truck activity*). For this goal, stakeholder relations seem not to be important. The control exercised in order to reach this goal was focused on coordination.
- “*The sourcing goal*” was to be achieved through three *Multiple stakeholders’ managed activities* (namely the *3P sourcing*, *Engine JV* and *Painting and welding activities*). For this goal stakeholder relations appear to be essential as well as the importance of political influence. In order to achieve this goal the foreign partner relied on external control of the supplier organizations.

In addition the goals of the joint venture seem to be more complex than they appear at first glance; as the goals of the executives, and between the stakeholder organizations, were viewed different from each other. This difference of goals between the stakeholders of a joint venture has not been comprehensively studied in previous literature.

Another difference between the literature and case is the goals in themselves. As noted before, the theoretical framework on joint venture performance suggests a

number of predefined motives behind joint venture establishment in China; primarily that multinational companies want *market access* and a *resource base* and domestic companies instead want to achieve *scientific resources* and *export markets*.

However, the empirical findings have shown that joint venture motivation is more complex than the theoretical underpinnings suggest; that motives can be ambiguous, subtle and unarticulated, and that goals undergo both exogenous and endogenous change during the establishment process.

### **Suggestion for re-conceptualization**

The joint venture literature has focused on constant and universal motives behind joint venture formation. Since the Hua Wo case shows that motives and goals are different between the JV stakeholders, the dynamic aspects of joint venture motivation should be taken into consideration. In the further analysis motives and goals will be studied over time.

It is important that an elaborated model of perceived performance entails sufficient time so that dynamics of joint venture goals are capture. Consequently, the main question concerning *Goals* in the next analysis chapter is: *How did goals emerge over time in Hua Wo and how were goals related to perceived performance?*

#### **8.1.2 From partners to (commercial and public) stakeholders**

In the Hua Wo case partner selection was a “non-issue” since the two parent organizations had no other conceivable alternative than to cooperate. Since the foreign partner had preferred a wholly owned enterprise the executives of the company instead made arrangements which gave the result that they became virtually independent for reaching the original volume goal of the joint venture. The *Single partner’s managed activities* (*MHD Truck, Production Planning and Product Cost Calculation*) were the activities that should ensure reaching the volume goal without “the interference” of the domestic joint venture partner.

However, when the sourcing goal later was added the foreign partner became heavily dependent on the two other *commercial stakeholders*, namely the supplier organizations Volvo Powertrain and 3P. For the *Multiple stakeholders’ managed activities* (*Homologation, Painting and Welding Operations Establishment, Engine Joint Venture Establishment and 3P Sourcing*) VTC depended on not less than four other organizations.

In the Hua Wo joint venture the coordination efforts between the commercial and industrial side of the foreign partner, as well as between the foreign partner and the general management of the joint venture and the supplier organizations, took much

time and effort. The domestic partner, on the other hand, had no means of influencing the strategic goals and/or objectives of the joint venture.

The Hua Wo case study further shows that *public stakeholders* exercised political influence in a way that altered the direction of the joint venture. In most strategic activities of the joint venture the importance of the political influence had major impact on performance.

The findings from the empirical study are in contrast to the JV literature in which partner selection is said to be crucial for joint venture performance. In the Hua Wo case none of the *Joint venture partners' managed activities* had direct influence on the strategic goals of the joint venture. (Neither the Inauguration activity nor the Ho Wo truck activity were related to the goals of the joint venture). For the *volume goal* VTC managed this alone (through the *Single partner's managed activities*) and the *sourcing goal* was controlled mainly by the supplier organizations (through the *Multiple stakeholders' managed activities*).

As a consequence many of the attributes traditionally viewed as important for partner selection in Sino-foreign joint ventures, do not apply for the Hua Wo joint venture. Since the foreign partner was unable to choose its partners, task related selection criteria (such as market competence, experience of relationship building, market position, industrial experience, strategic orientation and corporate image) and partner related selection criteria (such as learning possibilities) were not considered to any great extent

Instead the relationship between the commercial stakeholders as well as political influence affected JV perceived performance.

### **Suggestion for re-conceptualization**

Joint venture research has been deeply concerned with which factors which are most important for a satisfactory relationship between the *parent organizations* in the joint venture. Selection and relations criteria of joint venture parents have thus been thoroughly studied both in international joint ventures and Sino-foreign joint ventures. Since the empirical case shows that other stakeholders than the parent organizations had influence on the performance it is suggested that the focus on partner relations should be expanded to also include other important stakeholders.

From the Hua Wo case it is clear that the stakeholders of the joint venture can be divided into two groups, namely the *commercial stakeholders* that had explicit and tangible goals and objectives in relationship to the joint venture (e.g. the partner organizations, the joint venture management team and the supplier organizations) and the *public stakeholders*, which exercised political influence on the operations,

that had a more general and implicit interest in the joint venture establishment and operations (e.g. the Ministry of Commerce MOFCOM).

Since these stakeholders are fundamentally different, the analysis of the importance for the joint venture performance will be divided into *Stakeholder Relations* (for the analysis of the commercial stakeholders) and *Political influence* (for the analysis of the public stakeholders).

### *Stakeholder relations*

Summarizing the findings from the Hua Wo case, the selection and the nature of the relationships of commercial stakeholders (other than the parent organization) were important for the outcome of the activities. Furthermore it is clear that the goals of the joint venture stakeholders had an effect on the selection of, and relationship toward, these commercial stakeholders. In a further analysis of stakeholder relations, focus will thus be on: whether the goals of the stakeholders were compatible. In addition the quality of the relationship, defined as trust between the partner organizations, will be discussed<sup>64</sup>.

The Hua Wo case further implies that political influence effected the selection of, and relations between, the commercial stakeholder to the joint venture. Following this, the main question concerning stakeholder relations that is analyzed in the next analysis is: *How were the relationships between the commercial stakeholders developed over time in the Hua Wo joint venture, and how did stakeholder relations influence perceived performance?*

### *Political Influence*

The case study indicates that political influence was important both for the outcome of the activities as well as historically. In the Hua Wo case it is clear that political influence played an important role for all the concepts of JV goals, stakeholder relations and control.

The main question concerning political influence that is analyzed in the next chapter is: *How was political influence exercised over time in the Hua Wo joint venture and how did political influence perceived performance?*

## **8.1.3 From static to dynamic control**

Control was considered important in all the activities of the JV executive committee meeting.

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<sup>64</sup> This is in line with the JV literature as Buckley and Glaister (2002) list goals compatibility and trust as important task- and partner related selection criteria

However, in the *Single parent's managed activities* control discussions were different than in the other activities as a result of foreign partner's independence in these activities. Here internal control was exercised mostly through *coordination*.

Control considerations through *external control* were common when discussing the *Joint venture parents' managed activities*, as well as for the *Multiple stakeholders' managed activities*.

In the joint venture executive committee meeting many of the control issues concerned other stakeholders than the joint venture partners. This is especially apparent for the *Multiple stakeholders' managed activities*. In addition the empirical findings suggest that control relations between the different involved parties change over time.

Also for control there are discrepancies between the theoretical framework and the empirical findings. When joint venture performance literature traditionally only discuss the control relationship between the parent organizations of the joint venture, the Hua Wo case indicates that control also plays an important role within a partner organization, as well as between the partner companies and other concerned stakeholders. Control seems to be an important factor in the relationship to both the commercial and public stakeholders.

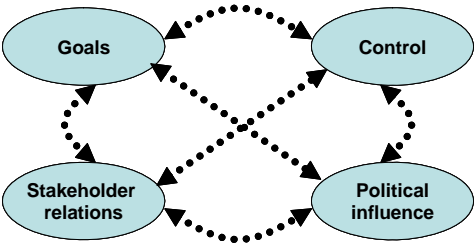
### **Suggestion for re-conceptualization**

The Hua Wo case suggests that control is less of a static construct than the theoretical underpinnings imply. Furthermore, the case shows that control is exercised differently within a JV partner compared to how control is exercised between JV partners. Other stakeholders than the parent organizations exercised control over the joint venture, something that influenced performance. Taken together, this redirects the analysis towards the aspects of control dynamics.

In the next analysis chapter the main question concerning control is: *How was control exercised in the Hua Wo joint venture over time, and how did control influence perceived performance?*

## **8.2 The Elaborated performance model**

In line with the findings from the analysis of the activities a re-conceptualization of perceived performance is suggested. Instead of being an outcome of the motives behind the IJV formation, partner selection and control, *perceived performance* can be understood in terms of the concepts: *JV goals*, *stakeholder relations*, *control* (internal and external) and *political influence*.



**Figure 46: The Elaborated performance model**

In this model the influence of the stakeholders of the joint venture are divided into the groups *Stakeholder Relations* (for the commercial stakeholders) and *Political Influence* (for the public stakeholders).

This model, which is called “*the Elaborated performance model*”, will be the starting point for further analysis. In addition, the analytical questions of this chapter will guide the analysis for each concept.



## 9 Elaboration of Perceived Performance

*“We have different aims with our joint venture, with regards to what we say and what we think, related to our customers and our partner. Then I think we like to talk about people instead of talking with people.”*  
(Quotation from Hua Wo Executive June 2004, translated from Swedish)

In chapter “8 *Re-Conceptualization*” an elaborated performance model was developed from the foci identified in section “7.3 *Activities Sorted by Focus of Discussion*”. This model, the elaborated performance model, will serve as departure for the further analysis. In addition, the importance of duration, described in section “7.1 *Activities Sorted by Duration*” and number of stakeholder, discussed in section “7.2 *Activities Sorted by Stakeholder Involvement*” will be analyzed in the following chapter.

### 9.1 Goals

In the initial discussions about a Volvo Trucks joint venture, a partnership with CNHTC was not intended. However, in 1993 Volvo Trucks realized that the plan to create a small joint venture with a local truck company was not possible, and that CNHTC was the one and only possible partner.

The first plan for a small CKD assembly factory was abandoned and instead, replaced with an idea for a large conglomerate of four different plants with both industrial and commercial support functions. However, these grand investment plans were not approved by the Chinese authorities; something that resulted in a scaling down of the plans to only encompass production of trucks, diesel engines and cabs. When the joint venture finally came into operation, the plans for engine production had been taken over by other stakeholders and only truck production remained in the scope of the joint venture.

#### 9.1.1 Motives and goals during planning phase

The motives of the Volvo Group, namely to achieve profitable growth through entry into emerging markets, was first broken down into long term goals by Volvo Trucks. Volvo Trucks decided that profitable growth in China only could be achieved by a focus on low cost, both when it came to products and to production. This decision led in turn to the articulation of more goals; namely to develop cheaper products through a Volvo/CNHTC joint product (FL- Steyr), and an Asia specific medium heavy duty truck (MHD-truck) as well as to achieve cheaper

production through local production and sourcing from China. As a result, it took a period of more than ten years for the goals of the Hua Wo's establishment in China to emerge.

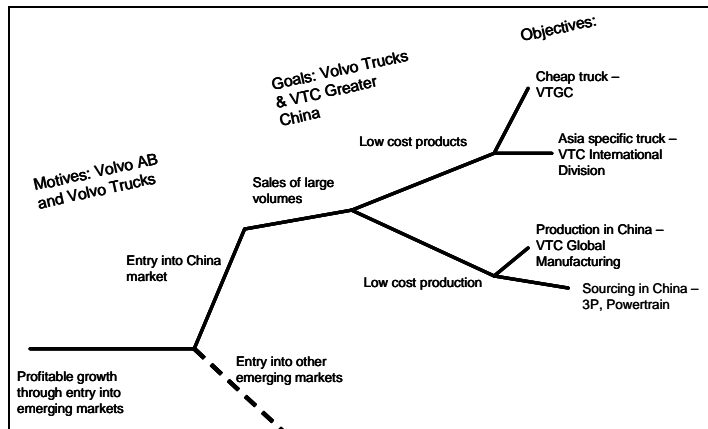


Figure 47: Development of goals in VTC's China Entry

In the decade during which the joint venture was planned the initial stakeholder organizations also went through considerable changes; both the VTC and CNHTC management were replaced several times, as well as the negotiation teams were, during the period of the negotiations.

### **The initial motives behind the joint venture establishment (1992-1993) and its goals**

When the first plans for establishing factories in China were drawn up, a joint venture in China was seen mostly as a means for market entry. The reason for Volvo wanting to become established in the Chinese market was its general strategy of focusing on emerging markets. The argument was that ambitious companies had to invest not only in products but also in markets.

The plan was to achieve a presence in China through a joint venture with a small local player. This joint venture should initially be a low profile establishment with limited investments, even though a larger investment was not excluded in a long term perspective. The aim of the joint venture was to create a presence. The risk was viewed as low since only old technology would be used in the joint venture factory.

### **The motives and goals stated in the first round of negotiations (1996-1997)**

After new legislation was introduced in China in 1994, through a national automobile policy, a small scale joint venture with the chosen partner was no longer possible. In 1995, the negotiations between the China National Heavy Duty Truck Group Co. Ltd. (CNHTC) and Volvo Trucks (VTC) began and the first real guide lines for the joint venture project were drawn up. As a result of the prerequisites of the automobile policy, the joint venture which was planned was an establishment of great proportions. Even though the motive of the joint venture (to be present on the Chinese automotive market) remained the same, the goals of the joint venture changed fundamentally.

#### *Volvo Trucks' Motives of joint venture establishment 1996*

In the visions of the 1996 internal Volvo documentation, strategic, political, financial, marketing and production goals were identified:

- **Strategic goals:** The strategic goals 1996, expressed in Volvo's internal documentation, were that the joint venture should be the "leading heavy duty truck company in China"; as well as it should result in becoming considered as "the best business partner".
- **Political goal:** One political goal was that the joint venture should be beneficiary to Chinese society. This goal is clearly a concession to the national automobile policy of 1994 that states that the automotive sector should become a "pillar industry" of the Chinese economy (Xing, 1997).
- **Financial goals:** The financial goals of the joint venture were that it should be "profitable" and give an "adequate return on investments".
- **Marketing goal:** One marketing related goal, which was expressed in the internal material was that the joint venture should "strengthen the Volvo brand name"
- **Production goals:** With regard to production the expressed goals were that the joint venture should "produce the best products and services" and "have world class quality".

### **Motives and goals expressed in the joint venture feasibility studies (1998-1999)**

When drafting the feasibility study in 1997, the particulars of the joint venture projects became clearer. Based on the visions from the 1996 project description, practical objectives concerning the scope of the business, the level of investments as well as sales were added.

*The first joint feasibility study (1998)*

In the project description of the 1998 feasibility study, it is a large consortium that is outlined. As a result of the partners' ambition when it came to the scope of business, the planned investments were substantial. In addition sales were expected to be high.

*The revised joint feasibility study (1999)*

In 1999, the goals and objectives of the truck joint venture were scaled down in a revised joint feasibility study. The scope of the business, as well as the level of investments and volume expectations were reduced.

**Motives behind the joint venture according to the JV contract (2002-2003)**

After the reconstruction of CNHTC and the re-organization of Volvo Group, Volvo Trucks were no longer interested in creating a large company consortium in Jinan. At the same time, the joint venture contract had to be consistent with the revised feasibility study of 1999.

Consequently, the scope of business for the joint venture company, like the one stated in the revised feasibility study of 1999, was to “*develop, assemble and produce trucks, cabs diesel engines and parts and components therefore; to sell its products; and to provide customer support, consultation, training and after sales services*” (Joint Venture Contract 2003; p5). This was a result of pressure from the Chinese government on Volvo to write the contract in accordance with the scope of business as it was expressed in the joint feasibility study.

Furthermore the level of investments in the joint venture was the same as that suggested in the revised joint feasibility study, 200 MUSD or less than half of the initial investment plans.

When it came to sales expectations, tangible volume goals were no longer expressed. The volume expectation stated in the joint venture contract is instead stated non-committal: “*The parties contemplate that the JV Company will produce two thousand five hundred (2,500) per year by the year 2005. The Parties further estimate that if market conditions permit and upon operation of the new manufacturing plant, they would be able to produce ten thousand (10,000) trucks per year by the year 2008*” (Joint Venture Contract 2003; p5)

9.1.2 Motives and goals during the operations phase

When the joint venture partners finally started to set up the Hua Wo factory in 2003, the formal plans for the joint venture did not differ greatly from the motives expressed in the joint venture contract. However, even though the planning of the joint venture and the motives and goals expressed in the contract were decided by the partners of the joint venture (Volvo Trucks, and Volvo’s Chinese investment company VCIC, and CNHTC) the execution of the plans was in many cases in the hands of other stakeholders.

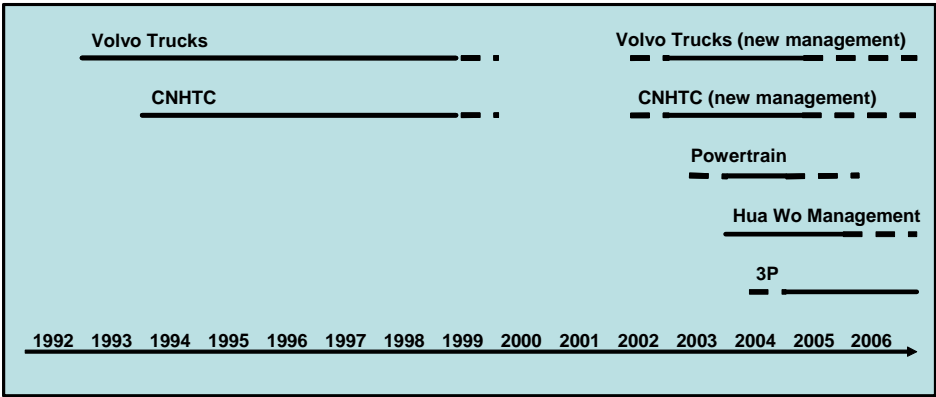


Figure 48: Stakeholders involvement in the Hua Wo joint venture in China (excluding non commercial stakeholders)

When the Hua Wo joint venture began its operations in 2004, two more stakeholder organizations, that were affected by the JV and could have an impact on the achievement of the strategic goals, were added to the picture.

Goals are broken down into sub-goals

In 2004 the emerging market strategy of Volvo Trucks and its ambition to enter the Chinese market, had been reduced to the goal of entering China through the Hua Wo joint venture in order to sell larger volumes of trucks in China. To achieve these large volumes, the cost of the truck had to be reduced. This was something that could be done by manufacturing and sourcing locally. The two players that had to support the parent companies and the Hua Wo management in order to reach these goals were the sourcing organizations of the Volvo Group, Volvo Powertrain and 3P.

These two organizations were both required to assist the manufacturing of trucks in Jinan through sourcing in China. Both organizations also had strategies of their own when it came to establishment on the Chinese market. Nevertheless, neither organization was required (or in Powertrain’s case allowed) to start their sourcing

activities in China until the Hua Wo joint venture was underway. The result was that it was not until Hua Wo became operational in 2004 that the two sourcing organizations began to plan for the local sourcing of parts and engines.

Thus, when the goals for the Hua Wo joint venture were determined, decisions were made that influenced several, more or less independent, Volvo organizations.

### **The volume goal**

The main goal of the joint venture was to facilitate the sales of large volumes of trucks on the Chinese market. These plans were later broken down into volume objectives according to which Hua Wo should manufacture 2500 trucks in 2005, and 10 000 in 2008. As mentioned before, there were more cautious estimations (compared to the officially communicated) as well as more optimistic ones in the internal documents.

When it came to the aim of developing, assembling and producing the trucks for the joint venture, *Volvo Trucks* was the stakeholder most concerned. The development of the truck models was carried out by the design department of *Volvo Trucks Global Manufacturing* organization, which was closely tied both to the commercial and industrial sides of Volvo Trucks. The production of truck kits (CKD-kits) however, was instead the sole responsibility of the industrial side, the *Volvo Trucks Global Manufacturing* organization, even though the actual assembly of the trucks was done in the joint venture (a process that was closely monitored by the Global Manufacturing organization).

However, the sales and marketing of the trucks in China was the responsibility of the commercial side of Volvo Trucks, namely the *International Division of Volvo Trucks*. In practice, it was the Volvo Trucks marketing company in China, *Volvo Trucks Greater China* (VTGC), that took care of the practical arrangements.

In order for Volvo Trucks to be able to achieve the volume growth in the Chinese sales, all these organizations were to be coordinated. This was apparent in the strategic activity known as the “*MHD truck project*”.

### *The MHD truck marketing activity*

In order to achieve a larger volume of Chinese manufactured trucks, the joint venture executives agreed that “the Chinese Volvo”, a lighter and cheaper truck, was needed to meet the demands from the Chinese automotive market. Behind this initiative was the commercial organization of Volvo Trucks, *Volvo Trucks International Division* (VTC ID).

During the start-up phase, between December 2003 and March 2004, the project of introducing the MHDT into China was the focus of attention for the Volvo Trucks' Area Asia and Volvo Trucks' Greater China organizations. The issue was reviewed from a financial, production planning, homologation and marketing point of view.

Even though it was Volvo Trucks' Area Asia and Greater China that most actively perused this goal, several other stake holders were also involved. First and foremost, the Volvo Trucks' ID organization was concerned, since Volvo Trucks' Brazil, where the truck model had been developed, and Volvo Trucks' Area Asia (and Greater China), both reported to the organization. For Volvo Trucks' ID, the possibility of exporting truck kits from Brazil and assembling them at Hua Wo presented a good possibility for achieving synergies and economies of scale. The manufacturing organization of Volvo Trucks', Volvo Trucks' Global Manufacturing (VTC GM), was also involved since they shared the responsibility for the production planning and product cost calculations with VTC ID; issues that the Volvo Trucks' organization of Brazil also took an active interest in.

### **The sourcing goal**

The other goal of Volvo Trucks, and one which was closely related to the goal of achieving higher volumes and lower costs for the Volvo trucks in China, was to locally source parts for the trucks produced in China. This goal, which was shared both by the manufacturing and the sales organizations of Volvo Trucks, became even more important when the MHDT project was abandoned in March 2003. In order to reach the objective of 60 %, which was seen as a suitable "mind set level" the organizations of Powertrain (which produced engines, rear axles and transmissions) and the 3P organization (which was responsible for the sourcing of other parts) had to be involved. From the beginning, the sourcing efforts of Volvo Trucks were mostly a result of the Chinese legislation that required local content in order for foreign establishment to be approved. Later on, as the volume plans for sales of trucks in China were scaled down, the possibility of sourcing parts in and from China, became one of the most pressing issues.

During the time of the joint venture operations, three of the strategic activities handled in the joint venture committee were related to the goal of succeeding in local sourcing in China. These were the activities "*Engine joint venture*", "*3P related - sourcing activities*", and "*Painting and welding operations*".

#### *Engine joint venture establishment activity*

For Volvo Trucks, the parts manufactured by the Powertrain business unit (engines, rear axles and transmissions) amounted to more than half of the cost of the truck kit. Consequently, the planning to manufacture the engines locally was

seen by the Volvo Trucks' organization as a strategy to reach a higher percentage of local sourcing in China.

Even though the Powertrain business unit was a support function to the Volvo Group, it was a large and relatively independent organization (Internal documentation: "Volvo Powertrain Organization Chart 2003") with strategies and objectives of its own.



**Figure 49: The strategic objectives of Volvo Powertrain** Source: Internal documentation "Volvo Powertrain Execution and Delivery Business Plan 2004-2007"

The first step taken in time for the joint venture to begin was to consolidate the engine (transmission and rear axle) operations from Volvo Trucks, Renault Trucks and Mack Trucks. The second step was to reduce the number of different engine platforms from 18 to two, one heavy duty engine and one medium duty engine. The third step was to reduce the number of suppliers from 800 to 100. The reasons for these decisions were both that these actions made it possible to reduce the cost base and to supply globally. The industry logic was explained as to *"build volume and create economies of scale to obtain competitive advantage"* (Internal documentation: "Volvo Powertrain Execution and Delivery Plan 2004-2007").

The joint venture between Volvo Powertrain, CNTHC and FAW was a part of this over-all strategy for creating a global supplier base. At the same time, the expansion of the Volvo Group business areas created a demand for large volumes of engines in China. To establish engine operations in China in order to meet the



need from the business areas, as well as for the global supplier system, became a part of the larger strategic plan.

*“We need to produce a lot of engines in China in order to supply the needs of the business areas’ expansion in China. At the same time, we need, we identified a relationship, when we produced this platform. We had decided that we should decrease our costs by 20% using the new platform, already before we started this discussion about a JV in China; we have identified that within the frame of the supplier base we have to start sourcing from low cost countries like China. The other aim of the factory, or our activity in China, is that the supplier base that we build in order to manufacture in China should be able to source into our industrial system.”* (Quotation from interview with Volvo Powertrain Executive, April 2004, translated from Swedish.)

### 3P Sourcing activity

As soon as the first negotiations to establish a truck joint venture in China started, also the importance of the issue of local sourcing of parts and components (other than engines) was discussed. However, it was not until ten years later that the purchasing organization of Volvo Trucks, Mack Trucks and Renault Trucks, known as Volvo 3P began to establish Chinese operations.

#### Article 14 Purchase and Supply of Materials, Equipment and Services

- 14.1 The Parties agree that they will assist VCIC to implement purchasing measures designed to increase the localized content of the JV Products, in order to reduce the JV Company’s costs and make the JV Products more competitive. The Parties acknowledge and agree that such purchases by VCIC of locally-produced components and parts is subject to considerations of competitive pricing and of compliance with quality standards established by Party B, in accordance with the needs of the JV Company. In the event that the components and parts which are produced locally and purchased by VCIC are competitive in the international market in terms of prices and Party B [Volvo Trucks] have confirmed in writing that such components and parts are in full compliance with its technical and quality standards for global sourcing, Party B [Volvo Trucks] will use its reasonable endeavors to integrate such components and parts into its global sourcing system.
- 14.1.1 Subject to the considerations stated above in Article 14.1, the Parties recognize that VCIC might purchase certain components and parts and subcontract certain services from Party A [CNHTC] such as painting and pressing.
- 14.1.2 Party A [CNHTC] pledges that upon request from VCIC, it will assist VCIC to identify business opportunities that would promote and assist in the localization aims.

**Figure 50: Article 14 of the JV contract devoted to purchasing, rules and agreements according to the JV p.24 Source: Joint Venture Contract**

In order for Volvo Trucks to get the joint venture approved they had to reach a certain level of locally sourced parts and components. In the joint venture contract

it is stated that local sourcing should be used *“to increase the localized content of the JV Products, in order to reduce the JV Company’s costs and make the JV Products more competitive”* (Joint Venture Contract, p. 24).

For Volvo Trucks local sourcing had become more important, during the planning phase as a result of the lowered import duties on imported trucks, since it made assembling truck kits less profitable. As a result, local sourcing became viewed as a solution to reduce costs on locally produced vehicles.

The issue of local sourcing was important, both for the industrial side and for the commercial side. For Volvo Trucks’ executives, a local content of 60 % was considered to be a desirable level if they were to achieve the desired cost reductions on the trucks assembled in Jinan. However, this goal was not shared by the purchasing organization 3P.

*“There is something that was in the latest minutes, it was “local content 60%” and to my knowledge [...] it has never been produced any form of plan, or demand in any form of data, which says that local content should be 60%.”* (Quotation from 3P Executive Bo Kringström 22 of March 2004)

For the executives of *Volvo Trucks* clear and tangible objectives for the local sourcing business was needed.

*“Our estimation is that we must come to around 60 to 70 %, Brazilian level in other words, in the local material from China. We would really like to see that we work together with 3P to create a plan - if that is possible and when it can happen.”* (Carl Stiernström 22 of March 2004)

*“Because it is extremely important for the economies of the business and the possibility to, so to say, our strategy when it comes to local sourcing. To have trucks locally, so to say. But, okay, the consequence is that the ambition is what we at VTC should show, what we want to reach – and then 3P must respond to that, right?”* (Gunnar Eriksson 22 of March 2004)

In the joint venture executive committee meetings, the 3P executives were hesitant to make any commitments when it came to sourcing levels. Instead they formulated the sourcing goals as to *“go faster and to focus on the big spending”* (Quotation from 3P Executive September 2004). Their overall goal was to identify major components and to find suppliers for these components. To find such Chinese suppliers was a part of the overall program to identify suppliers in North America, Europe and China for all three truck brands of the Volvo Group. 3P had,

as a consequence not China related sourcing objectives something that was illustrated in the statements of their main Chinese representative:

*My main mission? The first one, and first priority is, export from China to Europe and North America. And the other one is localization of the Jinan sourcing needs [...] One thing also, it is not that we want 2000 trucks 2004. It is to make a good profit, even if we achieve 40 % on the cost of 2000 trucks it will not affect the account of the Volvo Group a lot. But, what will be a big impact is if export from China leads to minus 30, 40 % on the costs - on 40 000 trucks. Then the impact will be much bigger. (Quotation from 3P Executive September 2004)*

However, this statement was directly contradictory to the opinion of the Volvo Trucks' executives which was that more than 60 % of the materials in the trucks assembled in China should be locally sourced:

**3P Executive:** *When it comes to local content, we have no commitment. When we come to local content the main player is Powertrain. If you have engine, rear axle and transmission you are above 50 %. And what we know is that if we achieve more than 40 % it will be fine. So 3P is not the main player for that.*

**Åsa Käfling:** *So say you are not committed. But on the other hand Volvo [Trucks] is committed to 3P because Volvo must not buy from other or source themselves. Or they shouldn't, they do, or did.*

**3P Executive:** *What is important to understand is that we have no commitment, we have just a kind of request, the brands say 'we would like to decrease the price'. But what makes the price? It is not only the margins of the suppliers we need to reduce, it is also the concept of the trucks. Okay, if you ask us to buy a Mercedes we can reduce by 10 or 20 or 30 % of the price of the Mercedes, but if you compare that price of the Mercedes with a Skoda then you have a big difference. What does that mean? That means that the concept is very important. If we continue to sell very modern Volvos in China will we be able to compete with local trucks? (Quotation from interview with 3P Executive September 2004)*

According to the 3P organization, this way of viewing the sourcing needs of Volvo Trucks in China was encumbered with an error of judgment that locally sourced material was cheaper *per se*.

*A lot of people say that we need to decrease by 40%, that we have to have local content. In one year we can find lot of suppliers, but the price will be the double. Especially when we have these projects where people say 'let our partner carry out the work of integration on our behalf for us in two years', it should be very easy for them to integrate for them in one year in their own plant, then the price will be the double. Maybe we should know that that is a good way for them to have a margin. [...] People say 'we have to have to integrate locally, 40 %' Okay, we can do that! In six months. But then we see the price. But if that is the only objective, we can do that. (Quotation from interview with 3P Executive September 2004)*

### *Painting and welding operations establishment activity*

The issue of producing cabs locally was the result of several different events. Firstly it became publicly known in September 2003, that foreign joint ventures operating in China would not be able to import the body and engine if the vehicle was to be classified as manufactured in China<sup>65</sup>. As it would take some time before the engine project joint venture would be able to source engines Volvo Trucks was bound to start preparing for local manufacturing of cabs.

Secondly, in the joint venture contract it had already been decided that cab painting and welding operations would be performed locally in China. Finally, to produce cabs locally was seen as a means to reduce transport costs, as cabs take up a lot of room when transported.

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<sup>65</sup> The truck would then be classified as having "complete vehicle characteristics" and follow a different duty tariff. Another result would be that the "preferential treatment" of the truck manufacturer (e.g. lower tax) would be recalled.

**International Division Area Asia**

**Facilitate Development of the Automotive Industry –  
Localization Requirements**

- The state requires automotive manufacturers to increase the level of localization, in order to promote technological advancement of parts manufacturer
- Automakers that use imported parts with *complete vehicle characteristics* (§52) must report the parts to MOFCOM and NDRC, and declare the parts to local customs authorities. Local authorities should inspect the quota application, import declaration and product entry allowance. The following combinations are perceived as *complete vehicle characteristics*:
  - 1) Import of both body (including cab) assembly and engine assembly
  - 2) Import of either engine assembly or body assembly together with not less than three of the following assemblies or systems: transmission assembly, drive axle assembly, non-drive axle assembly, steering system or braking system
  - 3) Import of not less than five of the above mentioned assemblies or systems
- Import ports for complete vehicles are Dalian New Port, Tianjin New Port, Shanghai New Port, Huanpu Port and two land ports Manzhouli and Huanggang.

*The consequence of the regulations is that it will be very hard to import new types of complete trucks*

Volvo Truck Corporation  
International Division

Åsa Kärling  
Business Intelligence, Area Asia

China Automotive Policy Report 20040314

VOLVO

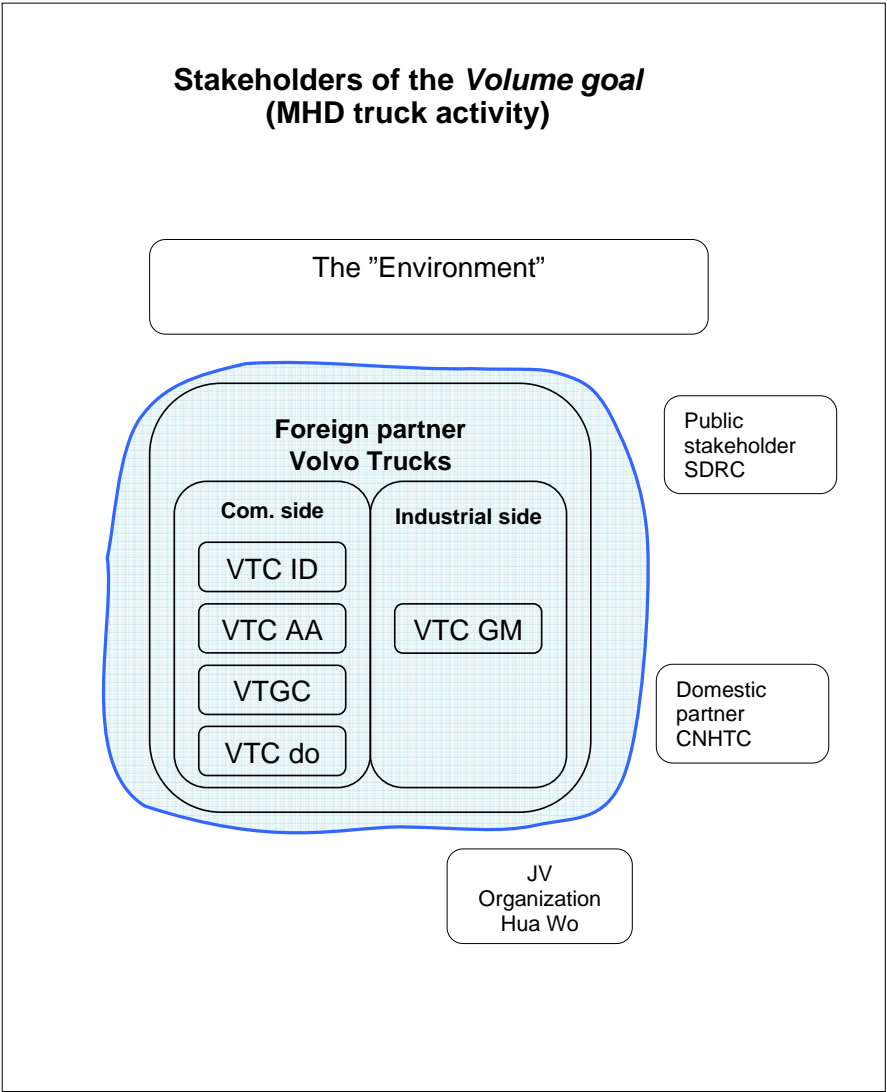
**Figure 51: Localization Requirements of Foreign Establishments in China**

**Source:** Internal documentation: “Summary of and Comments to the Chinese Automotive Policy issued 2 of June 2004” by Åsa Kärling

### 9.1.3 Goals: conclusion and comparison to JV literature

Comparing the case study with the literature on JV motives, Hua Wo at a first glance seems to be a textbook example of a Sino-foreign joint venture. For VTC, gaining market access and a resource base were main motives for the joint venture, just like the traditional JV literature suggests. CNHTC wanted technological knowledge and a base for further expansion, something which is also prescribed by the main literature. However, digging deeper into the empirical material reveals important differences compared to what is described in the literature. These differences concern which stakeholders that were able to influence these motives and goals, as well as the characteristics of the motives and goals.

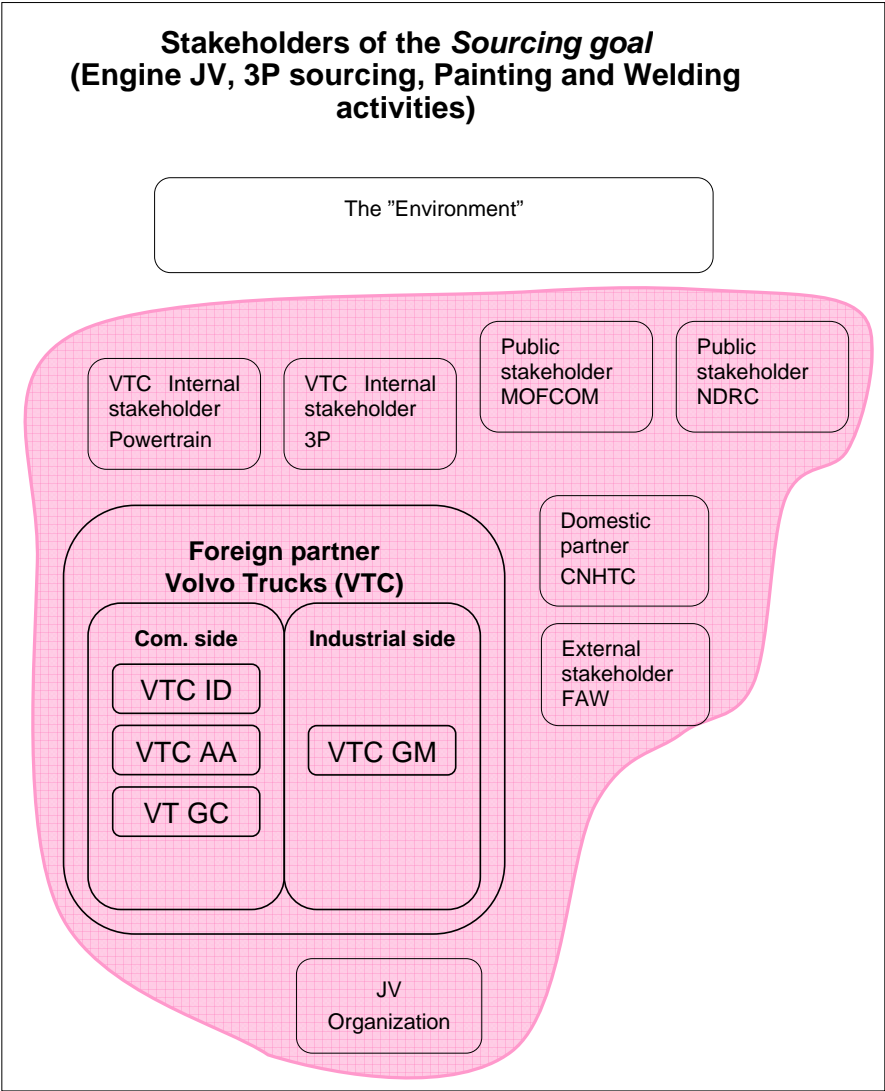
Firstly, when it came to the official goals of the JV, “*the volume goal*” and “*the sourcing goal*”, they were very different from each other.



**Figure 52: Stakeholders of “the Volume goal” of the Hua Wo joint venture**

Few stakeholders were able to influence the *volume goal* of the joint venture, that the joint venture was to manufacture 2,500 trucks per year 2007, and 10,000 trucks per year by 2008. This goal was solely managed by the foreign partner of the joint venture, Volvo Trucks, through the *MHD truck activity* which was a *Single parent’s managed activity*. For the volume goal the influence from other stakeholder organizations, such as the joint venture organization (Hua Wo), the domestic partner (CNHTC) and a public stakeholder (SDRC), was peripheral, as

none of these stakeholders was able to influence the achievement of the volume goal.



**Figure 53: Stakeholders of “the Sourcing goal” of the Hua Wo joint venture**

The *sourcing goal* of the joint venture was instead characterized by being influenced by the many stakeholders. Three *Multiple stakeholders’ managed activities*, namely the *Engine JV*, the *3P sourcing*, and the *Painting and Welding*

activities, were needed in order to achieve the sourcing goal. In addition to the foreign partner, with its different organizations, the domestic partner, the joint venture organization, two supplier organizations of the foreign partner, a competitor to both partners and two public stakeholders were directly involved in the activities. Each of these stakeholders was able to influence whether the sourcing goal was to be reached, or not.

Another difference concerning goals is how the goals were expressed. The literature on JV motives outlines a number of well defined, constant motives and goals for joint ventures. In the Hua Wo case, motives and goals were neither well defined nor constant. Instead, they emerged over time. When summarizing the different Hua Wo scenarios (in figures obtained from formal documents such as JV contracts and agreement) the development process of motives and goals becomes clear.

Joint venture project	Scope of business	Level of investment	Articulated volume goal	Articulated sourcing goal
1992-1994 Source: VTC China Project Presentation 1996-1998	Small CKD factory	Limited	No articulated volume goal	No articulated sourcing goal
1994-1996 Source: VTC China Project Presentation 1996-1998	Leading truck manufacturer in China	Large	10 000 trucks at start of production ultimately production of 20 000 trucks	50% local sourcing
1998 Source: VTC China Project Presentation 1996-1998	Large consortium of 3000 employees: -Four different plants (cab, engine, frame and assembly plant) -Three industrial support functions (purchasing, forgery and logistics) -Seven business units (internal and external communication, technical centre, quality development, finance and IS/IT, Plants and Facilities, and Human Resources)	Total investments of project 500 MUSD VTC capital contribution 100 MUSD (90 MUSD cash, 10 MUSD technology) Share capital 200 MUSD	6100 trucks 2000 and 15 000 trucks 2007 Eventually an annual capacity of 20 000 trucks	50 % local content 2000 90 % local content 2007
1999 Source: Joint Feasibility Study 1999	Production, sales and development of trucks, engines, bus chassis, components and parts. Import and export business After sales service, including training and maintenance.	Total investment of project 200 MUSD VTC capital contribution of 96.71 MUSD (50% of registered capital)	3 400 trucks 2000 10 000 trucks and 20 000 engines 2007	61 % local content 2007 of FM
2003-2004 Source: Joint Venture Contract 2003	Development, assembly and production of trucks, cabs, diesel engines, and parts and components. Sales of JV products Provide customer support, consultation, training and after-sales services.	Total investment of project 200 MUSD VTC and VCIC foreign exchange contribution of 5. 42 MUSD VTC and VCIC capital contribution of 30.72 MUSD (50 % of registered capital)	2 500 trucks 2005 10 000 trucks 2008	"Purchasing measures designed to reduce costs" Local sourcing of painting and welding activities

**Table 5: JV scope, level of investment, motives and goals change over time**

Before the joint venture was established the JV project had already undergone four major changes. The two official goals of the JV concerning volume and sourcing changed accordingly.



Hua Wo Joint Venture Stakeholder	Motive(s)	Goal(s)	Sub goals(s)
<b>Official goals of JV</b>			
<b>“The Volume goal” Foreign Partner</b> VTC ID (Commercial side)	Enter Chinese market	Achieve higher volumes of Volvo trucks sold in China	Sell 10 000 trucks in 2007
<b>“The Sourcing goal” Foreign Partner</b> VTC (both sides)	Establish global sourcing	Achieve localization of Chinese manufactured products	Get 60% local content of Hua Wo products
<b>Unofficial goals of JV</b>			
<b>Foreign Partner</b> VTC GM (Industrial side)	Establish global manufacturing	Assemble trucks	Establish CKD factory
<b>Joint Venture management</b> Hua Wo management	Establish Hua Wo factory	Assemble trucks with high quality  Get a certain level of independence and own identity	Get few quality remarks  Manufacture and sell “Hua Wo” branded truck
<b>Domestic Partner</b> CNHTC	Strengthen company and brand name	Achieve technological knowledge and learning  Establish engine joint venture  Develop sourcing network	Develop Ho Wo, a new truck model  Get efficient engines to (Ho Wo) trucks for domestic sales and export  Source parts and components for domestic sales and export
<b>Supplier</b> Volvo 3P	Establish global sourcing of parts and components  Fulfill obligations toward truck brands of Volvo Group	Develop sourcing network for parts and components  Assist Hua Wo with purchasing expertise	Reduce cost by at least 20 % on Chinese parts  Assist in the sourcing of certain parts Hua Wo according to legislation
<b>Supplier</b> Volvo Powertrain	Establish global sourcing of engine parts  Enter Chinese market	Develop sourcing network for to the industrial system  Establish engine joint venture	Achieve price reduction of at least 20 % for the new platform  Sell 50 000 engines in China 2010

Table 6: List of motives and goals of selected stakeholders

Another difference between the literature and case is the way in which motives and goals are described. In the literature, joint ventures are usually assumed to be established for one (or possibly two) specific motives or goals. Here too the Hua Wo case stands out since the official goals of the joint venture (the volume and the sourcing goals), were the goals of the foreign partner. However, no fewer than twelve different and sometimes contradictory goals can be identified for the joint venture stakeholders.

### **IJV goals and perceived performance**

The goals had a strong influence on perceived performance. For *overall satisfaction* the importance of goals was not as visible as for strategic goal achievement. This can be explained as a result of that the official goals of the JV were taken for granted, at the same time as the unofficial goals were not discussed.

For *strategic goal achievement* the importance of goals was more articulated by the executives. That the goals differed between the stakeholders, were ambiguous, emerged over long time, and often changed abruptly, influenced both the possibility to reach the goals and to assess goal achievement. That the control over the goals often was in the hands of other stakeholders also influenced strategic goal achievement.

## 9.2 Stakeholder Relations

During the *Planning Phase* (between 1993 until May 2003) there were few commercial stakeholders (henceforth called stakeholders) involved in the joint venture negotiations. The main stakeholders were CNHTC and VTC, the joint venture parents.

During the *Start-Up Phase* (June 2003 to the March 2004) the joint venture management was installed, something that added one more stakeholder to the picture. All at once, the relationships between the stakeholders became more complicated, since the Hua Wo management had ties to both parents.

In 2004, during the *Operations Phase*, two more important stakeholders, the supplier organizations Powertrain and 3P, were involved in the joint venture. These two companies had ties to the joint venture general management and to both parent companies.

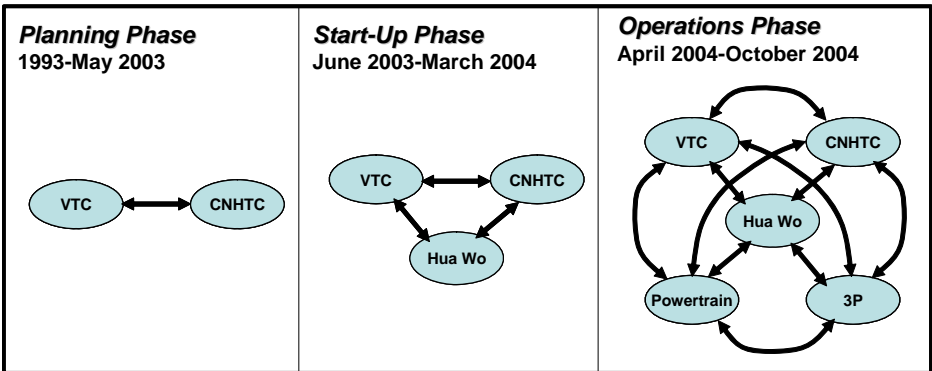


Figure 54: Commercial stakeholders during the planning, start-up and operations of the truck joint venture

Following this, five groups of relationships can be identified. These relationships are shown in “Figure 54”. These were the relationships between or among the:

1. Parent organizations (relationship 1)
2. Parent organizations and the joint venture general management (relationships 2 and 3)
3. Parent organizations and suppliers (relationships 4, 5, 6 and 7)
4. Joint venture general management and suppliers (relationships 8 and 9)
5. Supplier organizations (relationship 10)

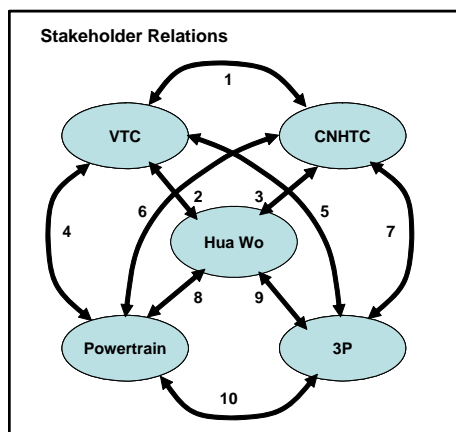


Figure 55: Stakeholder relations

### 9.2.1 Stakeholder relations during Planning phase

During the planning phase (1993 to May 2003) the only relationship with regards to the joint venture was the one between the JV parents. Since the JV had not yet been approved the supplier organizations had no presence in the Chinese market.

#### Relationship between JV Parents

The relationship between the two joint venture parents, CNHTC and VTC is the oldest of the ten relationships. This relationship was initiated as early as in 1993 and lasted over more than a decade.

*Relationship between VTC and CNHTC (Relationship 1) - "We don't think that this relationship can give us much"*<sup>66</sup>

However, the relationship between the two parent organizations cannot be described as especially warm. This was a result of a deep distrust between the two organizations.

*"Our joint venture is based on the presumption that we have to have a partner –we got one but they had not even dressed the bride, it was one of the ugliest brides imaginable"*<sup>67</sup>

<sup>66</sup> Quotation from interview with VTC Executive February 2004, translated from Swedish

<sup>67</sup> Quotation from interview with VTC Executive February 2004, translated from Swedish

This lack of trust between the parent organizations permeates the entire history of the joint venture establishment, from the very first negotiations in 1992 until the joint venture was finally put on hold in 2006. Historically, during the planning phase, it was the financial problems of CNHTC, as well as their wish for VTC technology, that caused the strained relationship between the parents, as the following quotations from two VTC executives show: “*Their idea was to get access to our technology, to steal it*”<sup>68</sup> and “*They were faking all sorts of figures, when we asked for them*”<sup>69</sup>.

### 9.2.2 Stakeholder relations during Start-Up and Operations phase

During the start-up and operations phase, the number of relationships involved in the JV grew. No fewer than three more groups of relationships were added: Firstly, there were the relationships between the JV partners and the JV organization, then, there were the relationships between the JV partners and the supplier organizations, and finally, there were the relationships between the JV organization and the supplier organizations.<sup>70</sup>

#### Relationship between JV Parents

*VTC and CNHTC Relationship (Relationship 1) – “It’s hard to cooperate with a partner that is on bad terms with the joint venture”*<sup>71</sup>

During the operations phase the *Ho Wo Marketing Activity* lead to further tension between the parent organizations. The goals of the two organizations were not directly contradictory, but indirectly the goals of CNHTC threatened the control strategy of VTC. Consequently, it was the VTC wish for control of its technology, which caused the most of the tensions between the two parents.

Conflicts about control were also visible in the *Engine Joint Venture* and the *Painting and Welding Operations Establishment* activities. As a result of this, the relationship between VTC and CNHTC went from bad to worse. After the new legislation concerning vehicle weight and axle load came into effect, the contacts between the organizations became few and formalized.

<sup>68</sup> Quotation from interview with VTC Executive February 2004, translated from Swedish

<sup>69</sup> Quotation from interview with VTC Executive September 2003

<sup>70</sup> The last group was the relationship between the supplier organizations 3P and Powertrain. Since this relationship did not concern the JV (to any great extent) it has been excluded from the analysis.

<sup>71</sup> Quotation from interview with CNHTC Executive February 2004, translated from Chinese

### **Relationship between Parents and JVO**

The relationships between the parent organizations and the joint venture organization (JVO) different greatly. Both relationships were established in 2003 when the joint venture was approved by the Chinese authorities.

*VTC and Hua Wo GM Relationship (Relationship 2) - "Tell me this, how is the relationship to the Beijing office?" <sup>72</sup>*

The relationship between the Hua Wo general management (GM) and VTC was characterized by conflicts over control. The relationship between the general management and the commercial side of VTC was tense from the very beginning, as a result of the latter organization being hesitant towards the appointment of the president.

Conflicts between VTC and Hua Wo were especially noticeable in the *Inauguration, Homologation and Engine Activities*. In addition, a conflict about *Production Planning*, which was a result of coordination difficulties following change in legislation, further infected the relationship during the *Operations Phase*.

To summarize, the goals of VTC and the Hua Wo management were not in direct conflict, but their strategies for reaching these goals were. As a result, the trust and relationship between the two organizations also degenerated. Neither of the two organizations was satisfied with the outcome of the relationship.

*CNHTC and Hua Wo GM Relationship (Relationship 3) - "As I said: the relationship with CNHTC is fine." <sup>73</sup>*

The relationship between the Hua Wo GM and the Chinese partner CNHTC was described as fully satisfactory by both parties, and there were never any real conflicts between the organizations. However, the good relationship between the Hua Wo GM and CNHTC later became a source of conflict between the Hua Wo organization and VTC.

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<sup>72</sup> Quotation from Hua Wo Executive February 2006, translated from Swedish. The whole quotation is as follows: "Upon the request of Volvo Trucks I have reduced the relationship to China National. I was actually requested not to have such a good relationship with China National! Because that could give the impression that I did not support the tactics of Volvo Trucks. I don't give a shit for Volvo Trucks tactics I said, I am here to do a job, and I want to have a relationship: Tell me this, how is the relationship to the Beijing office?"

<sup>73</sup> Quotation from interview with Hua Wo GM 2006, translated from Swedish

One of the reasons why the relationship between the Hua Wo management and CNHTC became so successful was because these two organizations had complementary goals and objectives. CNHTC assisted Hua Wo in its *Homologation and Painting and Welding Operations Establishment* activities, and the Hua Wo management provided CNHTC with learning opportunities and technological skills, thus enabling CNHTC to achieve knowledge and learning for developing the Ho Wo truck.

### **Relationship between parents and suppliers**

The relationship between the parent organizations and the supplier organizations concerning the joint venture operations, were initiated after the joint venture was officially approved in 2003.

*VTC and Powertrain Relationship (Relationship 4) - “We are 100% in step with Powertrain”*<sup>74</sup>

The goals of VTC and Powertrain were not in direct conflict with each other, instead it was the control strategy of VTC that conflicted with the goals of Powertrain. Nevertheless, the relationship between the organizations was considered to be good.

*VTC and 3P Relationship (Relationship 5) - “I don’t think it works out especially well.”*<sup>75</sup>

Neither VTC nor 3P was satisfied with the relationship between the two organizations. This was a result of VTC being dissatisfied with the outcome of the *3P Sourcing activity*, and 3P’s dissatisfaction with the actions of VTC regarding sourcing.

The relationship between the organizations became infected as a result of the sourcing issues, and the situation did not improve until the beginning of 2005. The goals of VTC and 3P were not mutually exclusive, but the fact that VTC was dependent on 3P in order to achieve its sourcing goal led to conflicts between the organizations. Generally, the level of trust between the organizations was low.

In 2005, a new steering committee was created in order to reach an agreement on the important sourcing issues. After the steering committee had been set up, the

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<sup>74</sup> Quotation Commercial Side Executive 22 of March 2004

<sup>75</sup> Quotation from interview with VTC ID Executive January 2006 translated from Swedish

relationship improved, but it was still not described as satisfactory by the executives.

*CNHTC and Powertrain Relationship (Relationship 6) - "We have only signed an agreement without any obligations."*<sup>76</sup>

The engine joint venture project which CNHTC and Powertrain cooperated in, was a result of the legislation that provided that a foreign company had to cooperate in joint venture-form in order for them to be able to establish operations in China.

The largest hurdle for the two organizations to overcome was the localization of the future engine joint venture. For CNHTC it was essential from a supply chain point of view that the engine joint venture was located in Jinan, but for the Powertrain goal of global sourcing, to locate the joint venture to a seaside port city like Qingdao (in the Shandong province) was better. Disagreements about the localization aside, the two organizations were not directly unhappy with the relationship during negotiations. Nevertheless, the engine joint venture project was terminated before the relationship became deep.

*CNHTC and 3P Relationship (Relationship 7)-"They refused Eric Hernandes [Head of 3P in China] to come here. They refused to meet him."*<sup>77</sup>

The relationship between CNHTC and 3P was fairly good in late 2004 and early 2005. Both 3P and CNHTC wanted to establish a global sourcing network of parts and components, so they started to cooperate and plan for developing shared sourcing resources. However, later in 2005 the relationship changed for the worse. This was a result of the fact that 3P wanted a lower price on the parts and components sourced from China, and experienced that CNHTC and the suppliers of CNHTC could not live up to this. This conflict, about the *Sourcing activity*, created a serious breach of trust between the two organizations.

*"Then things happened between China National and Volvo. China National got into their heads that the 3P people, right or wrong, claimed to have proof that the 3P people had used similar blueprints that they got from China National and shown them to another supplier and that they also had asked to buy these articles to Renault from Dongfeng in this JV." (Quotation from Hua Wo Executive February 2006, translated from Swedish)*

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<sup>76</sup> Quotation from Powertrain Executive April 2004 translated from Swedish

<sup>77</sup> Quotation from interview with Hua Wo Executive February 2006 translated from Swedish



As a result of the conflict, the cooperation between 3P and CNHTC was terminated. Both organizations were dissatisfied with the relationship.

### **Relationship between JV GM and suppliers**

The nature of the relationships between Hua Wo and 3P vis-à-vis Hua Wo and Powertrain were not alike. This was the result of different attitudes toward the joint venture on the part of the supplier organizations. When Powertrain ignored the joint venture management and negotiated with VTC instead, 3P chose to discuss with the joint venture management directly, without the involvement of the parent companies.

*Hua Wo GM and Powertrain Relationship (Relationship 8) - "We have not been involved at all"*

The relationship between the Hua Wo management and the Powertrain negotiation team was viewed as unsatisfactory, at least from the Hua Wo point of view. Both organizations distrusted each other. This distrust was seen through the lack of communication between the executives of the organizations. That Powertrain refused to allow the Hua Wo GM to take part in the engine joint venture project was the origin of the conflict.

*Hua Wo GM and 3P Relationship (Relationship 9) – "Very good! It works out fine!!"<sup>78</sup>*

During the operations phase the relationship between the 3P and the Hua Wo management developed what can be described as mutual understanding and trust, even though the outcome of the 3P operations was not in line with the expectations from the general management of Hua Wo.

*"I understand how they work. And that it is not easy to develop a thing that corresponds to what is in the front of this truck. It is not only a b-y brand name or a stamp on an invoice or a salary description, this brand stands for something else. And that 3P works bloody hard for, but then it is a tremendously slowly grinding mill."* (Quotation from interview with Hua Wo Executive February 2006, translated from Swedish

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<sup>78</sup> Quotation from interview with Hua Wo Executive February 2006

Even though the representatives from the management teams of the two organizations had different views about the goals, they felt satisfied with their relationship.

### **9.2.3 Stakeholder relations: conclusion and comparison to JV literature**

When comparing partnering in the Hua Wo case with partnering in the literature, the most noticeable difference is which stakeholders are considered when performance is evaluated. Whereas the literature almost exclusively discusses the relationship between the parents, stakeholder relations in the Hua Wo case also include relations between parent organizations, joint venture organization and suppliers.

As noted before, the number of stakeholders involved differed from activity to activity. With the exception of the *Single partner's managed activities* (where stakeholder relations were relatively unimportant) different constellations of the stakeholder relations could be found in both *JV partners' managed activities* as well as *Multiple stakeholders' managed activities*. Studying these relationships from the perspectives of strategic goal compatibility and trust, two main groups can be identified<sup>79</sup>: those whose relationships can be classified as *tenable* and those whose relationships were *untenable*.

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<sup>79</sup> Two relationships are excluded; the relationship between 3P and Powertrain (which was viewed as satisfactory by the executives) since it only concerns the JV peripherally, and the relationship between CNHTC and Powertrain as the project never left the negotiations table

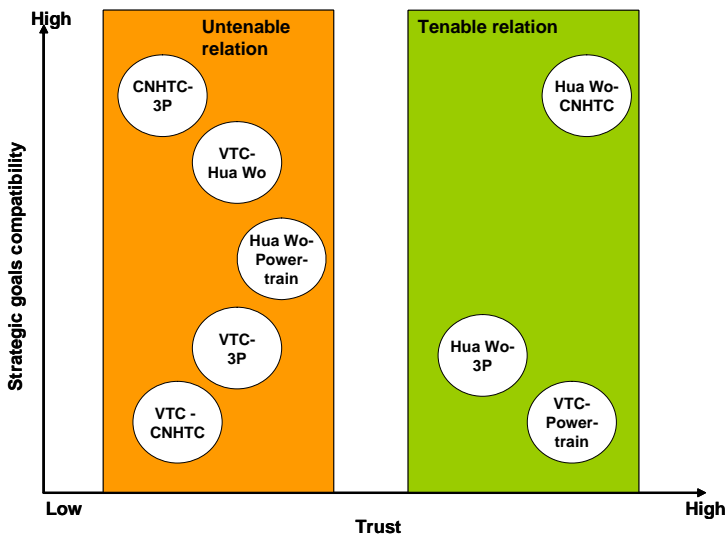


Figure 56: Relationships between commercial stakeholders with regards to goals compatibility and trust

**Tenable relationships**

There are three relationships that I classify as *tenable*:

Firstly there is the relationship between *Hua Wo* and *CNHTC* which by both parties was described as excellent. This relationship was characterized by a high level of goal compatibility, as well as by the fact that the executives trusted each other.

Two relationships were described as good. These are the relationship between *VTC* and *Powertrain*, and the relationship between *Hua Wo* and *3P*. In these relationships the goals of the organizations were somewhat conflicting but the executives confided in each other.

**Untenable relationships**

I classify five relationships as *untenable*:

Two of the relationships, the relationships between *VTC* and *CNHTC* and *VTC* and *3P*, are characterized both by strategic goal incompatibility and a low level of trust between the executives. The executives were clearly dissatisfied with their relationships.

In addition, also the relationships categorized by a high level compatibility of strategic goals but with a low level of trust among the executives, were viewed as unsatisfactory. The executives of these four relationships, *CNHTC and 3P*, *Hua Wo management and VTC* and *Hua Wo management and Powertrain*, were not content with regard to their relationships. Actually, the executives in relationships which exhibited low levels of trust were as unsatisfied as the executives where both trust was low and the strategic goals of the stakeholders were incompatible.

### **Stakeholder relations and perceived performance**

Analyzing the Hua Wo case, stakeholder relations are determinants for perceived performance.

When it comes to *strategic goal achievement*, it is clear that the stakeholders were in many ways involved in other's business in each other in order to reach their goals. However, in the Hua Wo case the importance of the stakeholder relations for strategic goal achievement was different for each different goal. Of the two official goals of the JV, only one, sourcing, was influenced by the quality of the relationship between the stakeholders. The stakeholder relations had no (or little) impact on the volume goal. The difference between the importance of stakeholder relations vis-à-vis the goals of the JV has not been thoroughly discussed in pervious literature.

The analysis further shows the relative importance of how the different partner relations characteristics influence *overall satisfaction*. When analyzing the stakeholder relations in the case the conclusion can be drawn that *trust* must be considered to be a more important partner relations characteristic than *goal compatibility*.

Another important finding is that informal structures in the form of alliances between joint venture stakeholders have a great impact both on JV satisfaction and goal achievement. Relations between stakeholders are also heavily influenced by relationships between the executives involved. In some cases good individual cooperation made an otherwise bad situation work out, while in other cases personal feelings sabotaged previously workable professional relations.

Finally, the analysis of stakeholder relations underlines the fact that joint venture strategic goal achievement and joint venture satisfaction are two different things. In earlier JV literature, those two performance measures are often used synonymously.

### **9.3 Political Influence**

For Hua Wo, political influence was substantial. During the planning phase (between 1992 and 2003) and during the operations phase (between 2003 and 2006), the automotive policies that were announced had a major impact on the joint venture project.

#### **9.3.1 Political influence during Planning phase**

The influence exercised by the public stakeholders over the joint venture establishment during the *Planning phase* was considerable. The large changes and development of the joint venture establishment, both with regards to motives and goals, stakeholder relations and control during the Planning phase was to a great extent influenced, or even directly initiated, by public stakeholders.

The initial plans to establish a small truck factory were abandoned as a result of the announcement of a new automotive policy (Automobile policy, 1994). After this a large consortium was planned, but when the joint feasibility study was rejected these plans were abandoned. Instead, the JV executives once again prepared for a smaller scale joint venture.

<i>Planning phase</i>	<b>1994</b>	<b>1998</b>	<b>2003</b>
<b>Aim with JV</b>	<b>Small (CKD) factory</b>	<b>Large consortium</b>	<b>Small (CKD) factory</b>
<b>Volume Goal</b>	Market driven	6100 trucks manufactured 2000 15 000 trucks 2007 Eventually 20 000 trucks annually	2 500 trucks manufactured 2005 10 000 trucks manufactured annually from 2008
<b>Sourcing Goal</b>	No articulated goal	50 % local sourcing in 2000 90% local sourcing in 2007	Purchasing measures designed to reduce costs
<b>Intervention</b>	New automotive policy	Rejection of joint feasibility study	Approval of joint venture contract
<b>Issuing organization</b>	State Development and Planning Commission (SDPC)	Ministry of Foreign Trade and Cooperation (MOFTEC)	Ministry of Commerce (MOFCOM)
<b>Result</b>	<b>Aim was to create leading truck manufacturer</b>	<b>Aim was to create smaller scale conglomerate</b>	<b>Joint venture factory is established</b>
<b>New Volume Goal</b>	10 000 trucks at start of production, ultimately 20 000 manufactured trucks annually	3400 trucks manufactured 2000 10 000 trucks and 20 000 engines manufactured annually from 2007	<i>Same as above</i>
<b>New Sourcing Goal</b>	50 % local sourcing	61 % local sourcing	<i>Same as above</i>
<b>Over all result</b>	Fundamental changes of goals and objectives, control and partner relations	Fundamental changes of goals and objectives, control and partner relations	Joint venture is finally approved

**Table 7: Table of political influence on JV negotiations during planning phase (gray area indicates political intervention and government authority involved)**

### 9.3.2 Political influence during Operations phase

During the operations phase political influence also played an important role for the JV. The scope of business, as well as the goals expressed in documents and contracts were the direct result of governmental intervention. An example of this is that stakeholder selection and relations were greatly influenced by the Chinese government. From the very beginning Volvo Trucks was informed that CNHTC was the only possible partner for cooperation.

Two activities, namely the *Homologation* and *Painting and Welding Operations Establishment*, came about only as a result of legislation (and change of legislation).

<i>Operations Phase</i>	<b>2003</b>	<b>2004</b>	<b>2004</b>	<b>2004</b>
<b>Aim with JV</b>	<b>Factory, sales and after sales</b>	<b>Factory and after sales</b>	<b>Factory</b>	<b>Factory, painting and welding workshop</b>
<b>Intervention</b>	Distribution agreement is approved	Homologation process is delayed	New automotive policy is issued: larger level of local sourcing is required	New legislation concerning vehicle weight and axle load is issued
<b>Issuing organization</b>	Commission of Foreign Economic Relations and Trade (COFERT)	State Development and Reform Commission (SDRC)	State Development and Reform Commission (SDRC)	Standardization Administration of China (SAC)
<b>Result</b>	<b>Joint venture scope is reduced:</b> Joint venture should assemble trucks and VTGC is allowed to sell and provide after sales services	<b>Standstill:</b> Until homologation is achieved the joint venture is not allowed to assemble trucks or get truck kits out of customs	<b>Joint venture scope is enhanced:</b> Joint venture should assemble trucks but has also to paint and weld truck cabs	<b>Standstill:</b> Market for heavy duty trucks is greatly influenced
<b>Result on goals and objectives achievement</b>	<u>Positive for VTC</u> from a control point of view	<u>Negative for all stakeholders</u> Factory stand still	<u>Positive for CNHTC</u> from a know-how goal point of view	<u>Negative for all stakeholders</u> Factory operations are terminated

**Table 8: Impact of political influence on JV establishment during operations phase (gray area indicates political intervention and government authority involved)**

### 9.3.3 Political influence: conclusion and comparison to JV literature

In the JV literature, political issues have received scant attention. All that is mentioned is the obvious fact that legislation is often the cause for establishing the JV in the first place.

For the Hua Wo JV, political influence had a profound impact on motives and goals, stakeholder selection and the division of control. This influence was exercised before the joint venture was established, and also on the operations in the JV.

However, political influence played different roles for different activities. For *Single partner's managed activities*, political influence had a major impact. This was especially the case for production planning which was directly hit by the new automotive policy. The automotive policy also had an effect on product cost calculation. In addition, legislation, in the form of demand for capital contribution and pressure for return on investment were important in the product cost calculation activity. In the MHD truck marketing activity the unclear legislation about the marketing of new products led to uncertainty.

For the *JV partners' managed activities*, the importance of political influence was not as evident as for Single partner's managed activities and Multiple

stakeholders' managed activities. Politics, in the form of inviting the right politicians to the inauguration festivities, were certainly considered in the inauguration activity. In the same way, unclear legislation about intellectual property rights possibly contributed to the decision not to take the Ho Wo issue to court. Nevertheless, the impact of political influence on these activities was limited.

The *Multiple stakeholders' managed activities* were greatly influenced by politics. Two of these, homologation and painting and welding, were initiated solely as a result of legislation. The other two activities, engine JV and 3P sourcing, were instead terminated as a result of legislation, as both were heavily affected by the new automotive policy.

### Political influence and perceived performance

Political influence had a major impact on perceived performance. This is apparent both for strategic goals achievement and over all satisfaction.

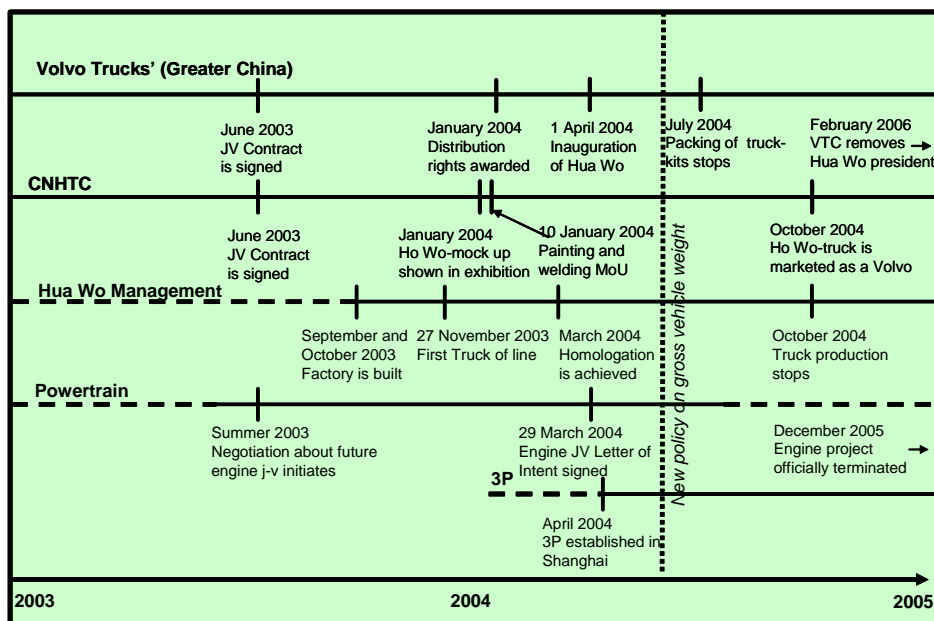


Figure 57: Illustration of impact of new automotive legislation on JV operations (dotted line represents issuance of new legislation concerning vehicle weight and axle load)

All the activities dealt with in the joint venture executive committee with a direct bearing on *strategic goal achievement* (MHD truck marketing, Engine JV and 3P sourcing) were greatly affected by public stakeholders. In addition, political influence had a negative impact on both the goals of volume and of sourcing. As



*Figure 56* illustrates, after the new automotive policy was announced, all the activities needed to reach the goals of the JV were terminated.

Political influence also had an impact on *overall satisfaction*. That the JV executives were dissatisfied was closely related to the political impact on the ability of the JV to reach its goals.

9.4 Control

First of all it is important to realize that the control strategies of the joint venture stakeholders were different, both during the planning, establishment and operations of the Hua Wo joint venture. In addition, the control strategies preferred by the joint venture stakeholder organizations were often incompatible. This holds especially true for Volvo Trucks and the Hua Wo joint venture management. In order to achieve their respective control strategies, the stakeholders designed control systems (comprising *control extent*, *focus* and *mechanisms*) that seemed appropriate.

<b>Control Extent:</b>	<u>Extent to which control is implemented:</u> Dominant parent, Shared management, Independent or Split management joint venture
<b>Control Focus:</b>	<u>In which area(s) control is exercised:</u> Resources, activities, output and/or relationships
<b>Control Mechanisms:</b>	<u>How control is exercised:</u> Content based and/or context based control mechanisms

Table 9: Summary of control concepts from Geringer and Herbert (1989)

9.4.1 Control extent

It is difficult to categorize Hua Wo according to the Killing (1983) typology of dominant parent joint venture, shared management venture and independent joint venture, since the different stakeholders of the joint venture viewed this issue differently, and that the power relationships changed over time.

Most evident was this in the difference of opinion between VTC and the Hua Wo management, where the difference in perception could only partly be explained by their views on how to reach the strategic goals set by the respective organizations:

- VTC viewed the joint venture in way similar to if the joint venture was a *dominant parent joint venture*, where all strategically important decisions should be taken by the commercial side of the VTC organization. This was a part of their control strategy which in many ways was dominant to that of achieving specific strategic objectives.
- Hua Wo instead perceived the joint venture in a way similar to if the joint venture was a *shared management venture*. This caused the joint venture management to consult CNHTC in all the matters which the management viewed as strategic. When the Hua Wo management was instructed *not* to consult CNHTC in strategic matters, the Hua Wo management changed its strategy and started to act more as if the joint venture was an *independent*

*management venture*. In the eyes of the Hua Wo management, control issues were subordinate to the strategic goals of the joint venture.

- *CNHTC* was content with having the control of specific resources, activities, output and/or relationships, with the result that they acted as Hua Wo was a *split management venture*.
- The other commercial stakeholders *Volvo Powertrain* and *Volvo 3P* were not concerned with the control extent of the joint venture, since they were only interested in the sourcing activity of the joint venture. However, the difference of their attitudes toward the Hua Wo management indicated that 3P viewed Hua Wo as more independent from its parents than Volvo Powertrain did.

#### **9.4.2 Control focus**

During the start-up and operations phases the control focus of the joint venture stakeholders was not the same, compared to the control focus that was stipulated during the planning phase. This was a result of two things: firstly that VTC was given the distribution rights of the joint venture, which tightened its control over the activities of the joint venture and secondly that the Hua Wo management, Volvo Powertrain and Volvo 3P were added as stakeholders to the joint venture, which resulted in a weakening of the VTC control.

#### **Planning phase**

During the planning phase of the joint venture the main stakeholders were VTC and CNHTC. Even though relatively free to decide the control division between themselves, the partners had to consider the legal framework of the automotive industry. As a result of this, changes in control policy from the government side, and because of the three additional stakeholder organizations that were added, the control focus of the stakeholders changed over time.

VTC, which had a greater desire for control, wanted to control the whole range of Hua Wo resources, activities, output and relationships. However, the Chinese automotive legislation prevented VTC from controlling the resources directly, but instead the company had to work through the joint venture management. This was not considered to be a major problem since VTC had the right to appoint the president of the joint venture and the president in his/her turn controlled the input material and manpower of the joint venture. In the same way according to the contract VTC could indirectly control the sourcing, operations and distribution of the joint venture. VTC had obtained the right to appoint the CFO of the joint venture, and this gave control of the capital and financial accounting of Hua Wo. Control of the technology, which was considered one of the most important issues, was secured through formal agreements between the partners (mainly through the *Technology License Contract*).

CNHTC was not interested in over-all control. Instead, the company focused on their contributed resource *capital* to the joint venture and wanted to have control over the financial result. In addition, CNHTC wanted to be sure that they reached its main goal with the joint venture, in other words to “achieve technological knowledge and learning” in order to be able to reach the objective of “develop Ho Wo, a new truck model” which was facilitated by the cab tooling dies provided by VTC.

### **Start-up and operations phase**

During the *start-up* and *operations phases* of the joint venture, the control focus of the joint venture parents changed. There were two main reasons for this. The first reason was that VTC was awarded the distribution rights of the joint venture products something which promoted the control prospects of VTC, and secondly three additional stakeholders were added to the joint venture, which weakened the control possibilities of VTC.

VTC still wanted to control the whole range of joint venture resources, activities, output and relationships that they had provided for in the formal agreements of the joint venture. VTC kept the control over the capital of the joint venture as well as of the technology, however, control was lost over resources like input material, manpower and also technology to a certain extent. The management of the *Ho Wo Marketing* activity and the CNHTC use of the painting and welding facilities were examples of this.

Similarly, the organization had to hand over the sourcing control of local material, as well as engines, to the sourcing organizations Volvo 3P and Volvo Powertrain. As far as the relationships between the Hua Wo management and CNHTC, and the Hua Wo management and 3P were concerned, VTC could only obtain limited control.

#### **9.4.3 Control mechanisms**

It is clear that the importance of the equity division (which was regulated by law) of the partners to the joint venture was subordinated the control that the partners achieved through using both content and context control mechanisms.

Nevertheless, since VTC wanted to have overall control of the joint venture, even formal power was considered important. VTC even negotiated a clause into the joint venture contract that if the legislation concerning automotive industry joint venture would change, Volvo would have the right to a total of 80% stake in the joint venture. This inability to voluntarily decide the equity division influenced the perceived overall satisfaction of VTC with the joint venture, even though it did not influence the perceived strategic goal achievement at all.

## Planning Phase

When it came to using control mechanisms during the planning phase of the joint venture the partners of the Hua Wo joint venture had different strategies:

VTC relied heavily on the *content based control mechanisms* and had a focus on *negative control*. This was provided for in the many contracts and agreements. During the planning of the joint venture control was excised through content based mechanisms that provided VTC with the right to control the:

- *Input* of most of the material and components to the joint venture, which was provided for in the *Joint Venture Main Contract*
- *Management* (including appointing the JV president) of the joint venture, which was provided for in the *Joint Venture Main Contract*
- *Financial situation* of the joint venture, which was provided for in the *Joint Venture Main Contract*
- *Technology* of the joint venture, which was provided for in the *Technology License Agreement*
- *Trademark* use in the joint venture, which was provided for in the *Trademark License Contract*
- *Distribution* of products from the joint venture, which was provided for in the *Distribution Contract*

In all the joint venture contracts and agreements, links were made to the other contracts and agreements in a way that resembled a domino construction. If one brick should fall, or one contract or agreement be violated, VTC would be able to terminate the other contracts and agreements, which made it possible to terminate the joint venture as well.

For the other partner, CNHTC, this construction was not popular, and it took several months before CNHTC could be convinced to sign the last contract (the *Trademark License Contract*) which finalized the control domino of Volvo Trucks. The reason that CNHTC eventually agreed to sign the contract was because unlike VTC the company were not trying to obtain overall control over all the joint venture activities. Instead the company wanted technology (through technology equipment and technological know how) and financial support from VTC; something they could achieve with very little control endeavor. CNHTC achieved:

- *Financial control* over the outcome of the joint venture, a construction that gave them a guaranteed return on their invested capital, through the *Joint Venture Main Contract*

- *Technology control* through the lease of cab dies from VTC (for production of CNHTC Volvo truck look-alike called Ho Wo truck cabs), through the *Joint Venture Main Contract* and *Technology License Contract*

However, during the establishment and operations of the Hua Wo joint venture the control situation became more complicated and this altered the control positions of the joint venture partners.

### **Start-up and Operations phase**

VTC continued to rely heavily on *content based control mechanisms*, but had later to supplement these with *context based mechanisms*. There were two reasons for this. The way in which control was exercised regarded in activities managed by VTC alone (the *Single parent's managed activities*) differed from the other activities. Secondly, some control mechanisms were lost during the start-up and operations phases which had to be compensated for.

In order to achieve the desired overall control, context based control mechanisms were added to the picture. The most important of these context based mechanisms used by VTC were:

- *Agenda setting* which was provided for through the establishment of the *Joint Venture Executive Committee Meeting*
- *Information control* which was provided for by the *hierarchical organization flow* of the Volvo Group and the Volvo Trucks organizations
- *Symbolic control* which was provided for through *activities* like the inauguration
- *Influence* (on engines manufacturing) through *allying with Powertrain*

CNHTC also added a few context related control mechanisms to their control strategy.

- *Influence through allying with the Hua Management* enabled CNHTC to widen the control of the joint venture technology. The *Painting and Welding Agreement* (which was signed by the Hua Wo president and the CNHTC chairman) provided CNHTC with technological knowledge sufficient enough for them to be able to market Ho Wo (a Volvo Truck look-alike truck) as “*painted and welded in the same process as the Volvo trucks*”.
- *Influence through allying with 3P* (until this relationship was abruptly terminated in 2005) enabled the CNHTC managers to achieve some control over the resources of the joint venture as well as widen the technology control even further. The sourcing cooperation with 3P enabled CNHTC to procure the same material for their Ho Wo truck as 3P sourced for the Volvo branded trucks of the Hua Wo joint venture.

For the Hua Wo management, control was exercised through both content and context based mechanisms. Control from content based control mechanism was exercised through control of:

- *Management*, since the Hua Wo president had the right to appoint the functional managers of the joint venture, a right provided by the *Joint Venture Main Contract*
- *Staffing*, since the Hua Wo president and management team had the right to appoint the employees of the joint venture according to the *Joint Venture Main Contract*

Control through context related mechanisms was exercised mainly through:

- *Influence through allying with CNHTC* in order to achieve a greater independence (formalized in the *Painting and Welding Agreement*)
- *Influence through allying with 3P* about sourcing issues also provided the Hua Wo management with a larger extent of independence

The supplier organization, Powertrain, was only interested in the Hua Wo joint venture indirectly, since Powertrain would be the main supplier of engines to the joint venture. In order to achieve control, Powertrain choose to ally with both partners to the joint venture. This alliance was eventually formalized in the *Letter of Agreement* about a future engine joint venture.

The supplier organization 3P wanted control over the sourcing activities of Hua Wo and VTC and achieved this through allying with CNHTC and Hua Wo. This cooperation was not formalized in an agreement even though the cooperation with Hua Wo became more or less formal after some period of time through the Hua Wo *training and development programs* for 3P employees.

#### **9.4.4 Control: conclusion and comparison to JV literature**

The largest differences between the case and the JV literature are that the control aspects differ from stakeholder to stakeholder, and that the control relationships among these stakeholders change over time.

In addition, control was exercised differently in the Single partner's managed activities, JV partners' managed activities and the Multiple stakeholders' managed activities.

The partners used different control strategies during the planning phase. Whereas the foreign partner (VTC) wanted control per se and sought for the activities to be *Single parent's managed*, the domestic partner focused on the outcome (in the form of capital contribution and the technology needed to produce the Ho Wo truck).

During the start-up and operations phase, three additional stakeholder organizations were added which led to that the foreign partner had to accept activities which were *Multiple stakeholders' managed*.

The way in which control was exercised differed between these two categories of activities, as the foreign partner used management of information flows and coordination to control the Single partner's managed activities, and inducement of other stakeholders to control the Multiple stakeholders' managed activities.



<i>Planning phase</i>	<i>Extent/Tightness</i>	<i>Scope/Focus</i>	<i>Mechanisms</i>
<b>Foreign partner</b> <b>VTC</b>	<u>Dominant parent</u> <u>joint venture</u>	<u>Resources</u> Input material (*) Capital (result) Technology Manpower (*)  <u>Activities</u> Sourcing of engine (**) Sourcing of material Operations (*) Distribution (*)  <u>Output</u> Volume  <u>Relationships</u>	<u>Content based</u> Financial control (action related) Technology control Trademark control Management control
<b>Domestic partner</b> <b>CNHTC</b>	<u>Split management</u> <u>joint venture</u>	<u>Resources</u> Capital (contributed)  <u>Output</u> Guaranteed return Ho Wo Truck	<u>Content based</u> Financial control (outcome related)

<i>Operations phase</i>	<i>Extent/Tightness</i>	<i>Scope/Focus</i>	<i>Mechanisms</i>
<b>Foreign partner</b> <b>VTC</b>	<u>Dominant parent</u> <u>joint venture</u>	<u>Resources</u> Input material Capital Technology (-) Manpower (*) (-)  <u>Activities</u> Sourcing of engine etc (**) (-) Sourcing of material (***) (-) Operations (*) (-) Distribution (+)  <u>Output</u> Volume Sourcing of engines (**) (-) Sourcing of material (***) (-)  <u>Relationships</u>	<u>Content based</u> Distribution control Financial control (action related) Technology control Trademark control Management control  <u>Context based</u> Agenda setting Information control Symbolic control Influence through allying with Powertrain
<b>Domestic partner</b> <b>CNHTC</b>	<u>Split management</u> <u>joint venture</u>	<u>Resources</u> Capital (contributed)  <u>Output</u> Guaranteed return Ho Wo truck (+) Sourcing of engines (**) (+) Sourcing of material (***) (+)	<u>Content based</u> Financial control (result related)  <u>Context based</u> Influence through allying with Hua Wo Influence through allying with Powertrain Influence through allying with 3P

<b>Joint venture organization Hua Wo</b>	<u>Shared Management Joint Venture (2003-2004)</u>  <u>Independent Joint Venture (2004-2006)</u>	<u>Activities</u> “Industrial”  <u>Output</u> High quality manufacturing (-) Independence and own identity (+)  <u>Relationships (+)</u>	<u>Content based</u> Management control Staffing control  <u>Context based</u> Influence through allying with CNHTC
<b>Supplier Powertrain</b>	<u>Not applicable</u>	<u>Activity</u> Sourcing of engines, rear axles and transmissions (+)	<u>Context based</u> Influence through allying with VTC Influence through allying with CNHTC
<b>Supplier 3P</b>	<u>Not applicable</u>	<u>Activities</u> Sourcing of locally produced material (+)	<u>Context based</u> Influence through allying with Hua Wo Influence through allying with CNHTC

(\*) Controlled through joint venture

(\*\*) Controlled through Powertrain

(\*\*\*) Controlled through 3P

(-) Control weaker during the start-up and/or operations phase compared to planning phase

(+) Control stronger during the start-up and/or operations phase compared to planning phase

**Table 10: Summary of control extent, control scope and control mechanisms of JV stakeholders**

To conclude, the most salient difference between the planning phase and the start-up and operations phase was that the additional stakeholders changed the control division of the joint venture. VTC preferred the activities in the JV to be Single parent's managed, since JV partners' managed activities and Multiple stakeholders' managed activities led to loss of control.

Comparing the operations of the JV with the planning phase, control changed to become more complicated. As a result of VTC's smaller control scope during the operations phase (the control of technology, staffing, sourcing and operations was reduced), the executives turned to informal and context based control mechanisms such as deciding the agenda and controlling the information flow of the activities. In addition, the foreign partner VTC allied with the supplier Powertrain in the Engine JV activity. The other stakeholders also entered into new alliances.

### **Control and perceived performance**

Control is influential for perceived performance in the Hua Wo case, just as previous JV literature suggests. However, previous literature has not emphasized that the views on control extent, the wish for control scope and the use of control mechanisms change over time. Furthermore, control is a complicated phenomenon which is decided through the interaction of the different stakeholders to the JV.

There is a difference between perceived performance as strategic goal achievement and overall satisfaction in regards to control. For *goal achievement* it seems like control (through control extent, control focus and control mechanisms) is less important. Anyhow, the connection between goal achievement and control is not evident.

However, there is a clear relationship between control and *overall JV satisfaction*. To have the desired control scope seems to be an important factor in order to be satisfied with the JV.

## **9.5 Performance Evaluation by Stakeholders**

To conclude, all the key concepts of goals, stakeholder relations, political influence and control influenced perceived performance of the Hua Wo joint venture. However, when asking the joint venture executives for their evaluation of performance the difference between strategic goal achievement and overall satisfaction is shown.

### **9.5.1 Performance as strategic goal achievement**

The official goal of Hua Wo was that the JV should produce 2,500 trucks per year by the year 2005 and 10,000 by the year 2008. This goal was generally known as “*the volume goal*” for the Hua Wo stakeholders.

*“The parties contemplate that the JV Company will produce two thousand five hundred (2,500) per year by the year 2005. The Parties further estimate that if market conditions permit and upon operation of the new manufacturing plant, they would be able to produce ten thousand (10,000) trucks per year by the year 2008”* (Joint Venture Contract 2003; p5)

Sourcing in order to reduce the costs of the products was also to be achieved through the joint venture. This goal, which is more implicitly expressed, was known as “*the sourcing goal*”.

*“The Parties agree that they will [...] increase the localized content of the JV Products, in order to reduce the JV Company’s costs and make the JV Products more competitive.”* (Joint Venture Contract; p. 24)

The Hua Wo joint venture stakeholders were in agreement that neither the volume goal nor the sourcing goal had been achieved when they evaluated the outcome and terminated the operations of the factory in 2006. However, different stakeholders gave different reasons for the failure.

### **Reason for failure of Volume goal**

A common explanation for not achieving the *volume goal* was that *political influence* through the new automotive policy made it impossible to market the joint venture products:

*“The factory we built, the joint venture we established, was grounded on market conditions that disappeared, and that means that the strategy did not work out. [...] On the other way around, if that factor we should have taken into consideration is that a new law can be passed at any time we should not enter into China anyway.”* (Quotation from interview with VTC ID Executive 23 January 2006 translated from Swedish)

*“The idea was that we should build tractors, this was the thought. We did not do that, we build superstructures instead and made money. This was a good market, but then it died.”* (Quotation from interview with VTC Global Manufacturing Executive 23 January 2006 translated from Swedish)

That the *goal* in itself was unattainable was also given as a reason for the failure:

*“It [the new automotive policy] was a relief for those people that had said that we should sell 3,000, 4,000 trucks in a market were we normally would never have sold 2,500 even if the new requirements had not been issued.”* (Quotation from interview with Hua Wo Executive February 2006 translated from Swedish)

*“Then it turned out that tractors ‘no we can’t build those, we lose to much money on those since we import too much’; so it became a somewhat of an anticlimax. Not somewhat, but a lot. I only say this: one factory more or less, we did not invest a lot of money in it [...]. I did not have any difficulties saying ‘okay we close the factory now’. I did not have any difficulties taking this decision.”* (Quotation from interview with VTC Global Manufacturing Executive 23 January 2006 translated from Swedish)

Another reason for not being able to market the trucks was said to be the result of too high a level of imported truck parts from Sweden, which in turn was a result of the failure to achieve the *sourcing goal*.

### **Reason for failure of Sourcing goal**

During the joint venture operations it became clear that the achievement of the *sourcing goal* was a prerequisite for achieving the volume goal:

*“It is not a secret that the whole foundation of our business in China is to have a lower product cost. If you look on what it costs to produce a truck, the material counts for 80 %. So fiddling around in the factory, of course we should do that too, but in order to succeed we have to have locally produced material to a larger extent; and preferably components like axles and engines as well. And it is only to look in the rear view mirror and say ‘we built the factory and established the JV, perhaps we should have started in the other end in order to have the right product cost when we started to produce’. But we did not do that.”* (Quotation from interview with VTC Global Manufacturing Executive 20 January 2006 translated from Swedish)

According to the VTC stakeholders the reason for failing to achieve the sourcing goal was the imperfect *stakeholder relations* between VTC and the supplier organization 3P:

*ID Executive: Nothing much has happened. If we say like this, we still do not assemble especially much local material today compared with when you left the committee.*

*Åsa Käfling: So, 70 % has not been reached yet? [laughs]*

*ID Executive: If there even was a single screw it would be good. That’s it!*

(Quotation from interview with VTC ID Executive January 2006 translated from Swedish)

*“He [Bo Kringström head of 3P in Asia] was not committed. And there I will tell you, when we look at it now afterwards, it was there the problem was. Because I mean, in order to develop a product, or talk about local sourcing, or whatever ... it is a bit strange really, because these people that have this responsibility within Volvo were not represented in the committee, 3P you know.”* (Quotation from interview with VTC Global Manufacturing Executive 23 January 2006 translated from Swedish)

### **Conclusion strategic goal achievement**

When concluding the inability to achieve the *volume goal* of the Hua Wo joint venture the executives gave three reasons for the failure. First and foremost, the new automotive policy made it very hard to sell the products. Secondly, since the percentage of the locally sourced material was so low (as a result of the failure of the sourcing goal) the trucks became too expensive. Last, but probably most important, the expectations on volumes were too high in relationship to the market demand.

Analyzing the key factors in order to succeed with the volume goal in the future, the executives were in agreement that a future strategy would have to be different from the prior strategy. In order to achieve the volume goal VTC would have to start from the other end, they argued, and have products that the Chinese market demanded before establishing a joint venture, or any form of manufacturing, in China.

### **9.5.2 Performance as overall satisfaction**

When probing for the main reason for stakeholders' dissatisfaction with the joint venture two reasons were given. Firstly, the executives were naturally dissatisfied with the actual outcome of the joint venture regarding the inability to achieve the goals. In addition, the problems related to the relationships among the different joint venture stakeholders were emphasized. For VTC a difference in opinion between the commercial side of the company (VTC International Division) and the industrial side (VTC Global Manufacturing) can be detected. The commercial side executives were most dissatisfied with the cooperation with the domestic joint venture partner CNHTC:

*"We were forced to work with someone and that's why it doesn't work out very well! Because we were assigned a partner that some government thought that we should give away our technology to; and moreover a partner that thinks that we are going to do that. It becomes such a lousy start. Then it had been better today, we could find a partner that has no ambition to become our competitor. Then I think we had found a partner that we could have a better communication relationship to, instead of a partner that really are not in this JV to help you, or Volvo in this case, but only is in the JV in order to help itself. That doesn't even have a thought of giving you a little finger in order to help its partner. We could really have considered helping CNHTC a bit if they had helped us a bit, helped us with anything. We have received nothing, nothing." (Quotation from interview with VTC ID Executive 23 January 2006 translated from Swedish)*

While the commercial side of VTC was especially dissatisfied with the relationship with the domestic partner, the industrial side instead pointed to the lack of coordination between the commercial and industrial side of VTC for production planning. These coordination problems clearly affected the performance of the joint venture, the executives from the industrial side argued:

*"Who is responsible for what? Even if I know that we decided this in an early stage of the board meetings, work wasn't done according to this afterwards, and instead it became mudslinging. 'You were supposed to do that...' But this is starting-up problems; to find the part of one self. What you possible could learn from this it that when you start an establishment, and maybe also in a business that is tougher than ours, one might be a bit more careful when describing processes and defining functions." (Quotation from interview with VTC Global Manufacturing Executive 20 January 2006 translated from Swedish)*

*"China had lived quite a lot on that they wanted somewhere else than they actually were. So they had said 'we want there and there' and as long as we supplied them with trucks from Europe we held back when we deemed it necessary. So they really had never worried about that, they thought that their plans were followed. But we adjusted the plans. Later, when we built trucks locally in China from Brazil and from Europe everything turned to chaos. I saw it like a journey I had to undertake; we have had other markets that also have been somewhat of a 'dream team'. I didn't look at it like it wouldn't work out, only that they should use the material, the routines we already had. There [Carl] really had to tell them off properly so they started applying this, because he arrived in a situation where he got at huge stock as a result of this. A bloody lot of trucks". (Quotation from interview with VTC Global Manufacturing Executive 23 January 2006 translated from Swedish)*

If the industrial side (VTC Global Manufacturing) executives were not satisfied with the VTC internal coordination, the Hua Wo general management was even more articulated in their views. The most dissatisfactory issue for the Hua Wo management was actually the relationship with the commercial side of VTC:

*"Then, by different reasons, my relationship with Volvo has been chillier the last six months. It is partly the treatment of Volvo towards the company; but partly also the Volvo action towards the company's future and also how they treat certain issues, and thirdly how I personally have been treated. The relationship with CNHTC works out fine." (Quotation from interview with Hua Wo Executive February 2006 translated from Swedish)*

### **Conclusion overall satisfaction**

The main reason for dissatisfaction was the inability for the JV to achieve its goals. In addition, cooperation and coordination problems between the partners were given as a common explanation for dissatisfaction. However, while the executives from the commercial side emphasized the strained relationship with the domestic partner; the executives from the industrial side and the Hua Wo GM instead pointed to the VTC internal coordination problems.



*“Sometimes what preceded the meetings, before we got them to work properly, you got the feeling that it was nothing less of a war. But sometimes it was a war about nothing. Non existing problems! But that is not unusual, that happens in the best of families were a lot is going on and you have to coordinate what is happening. You know this feather that becomes a hen or the hen that becomes a feather.”* (Quotation from interview with VTC Global Manufacturing Executive 23 January 2006 translated from Swedish)

Concluding the lessons learnt from the difficulties related to cooperation and coordination between the different companies and organizations the executives emphasized two things:

Firstly, in order to succeed with a joint venture in the future, the parent companies should not be competitors. Secondly, to reduce the sources of conflict between stakeholders, routines, processes and division of authority of the operations should be clear from the start.

## 9.6 Summary - Analysis of the Elaborated Model

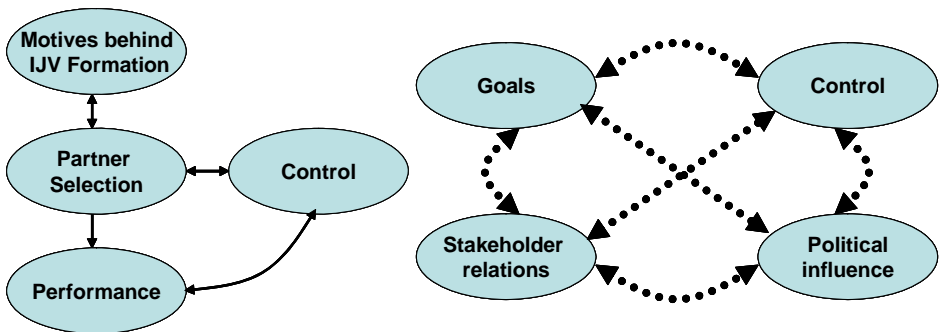


Figure 58: Comparison of the Parkhe (1993) model and the Elaborated performance model

*JV Goals*: the goals in themselves were important for perceived performance. However, the official JV goals were not considered to be important by all the stakeholders in the joint venture. Instead these stakeholder organizations worked in order to achieve the (often unofficial) goals of their own organization. JV goals were more important for goal achievement than for overall JV satisfaction.

*Political influence:* political influence was crucial for perceived performance. However, political influence had different impact in different phases of the joint venture as well as different impact on different activities. The impact of the political influence also differed between the stakeholders. Political influence was important both for goal achievement and overall JV satisfaction.

*Stakeholder relations:* stakeholder relations affected perceived performance. However, the importance of stakeholder relations differed among different activities and different goals, as well as over time. Stakeholder relations influenced both strategic goal achievement and overall JV satisfaction.

*Control:* control was considered to be essential for performance by the JV executives. However, control was exercised differently by different stakeholders and the content of control also differed between activities (and groups of activities). In addition, the use of control changed over time. Control was more important for overall JV satisfaction than strategic goal achievement.

*Perceived performance:* all the key concepts are important for perceived performance. However, their relative importance differs over time, among stakeholders and activities (and among the different groups of activities).

The concepts of the model seem to be relevant for analyzing strategic goal achievement and overall JV satisfaction. However, the elaborated model is unstable. The concepts of the model seem valid for the Hua Wo case, but the relative importance of the concepts varies among activities and groups of activities, among different performance measures (strategic goal achievement and overall JV satisfaction) as well as over time.

In addition, one question mark remains: How can the differences between the findings from the analysis of the elaborated model and the previous literature be explained? This question will be the starting point for the next analysis.

## 10 The Hua Wo Case and Assumptions in JV Literature

*“[L]iving systems whether biological organisms or social organizations, are acutely dependent upon their external environment and so must be conceived of as open systems.” (Katz and Kahn 1966; p16)*

Summarizing the findings from the analysis of the case, several questions arise: Which stakeholders are to be considered when studying joint ventures? Apparently, to evaluate the influence of the parent organizations is not enough. Secondly, which of the joint venture goals are to be considered? The case shows that goals of stakeholders other than the JV partners influence perceived performance. How can the lack of focus on political aspects in the literature be understood, granted the importance that politics had on the outcome of the case? Finally, how can we understand the changes that control underwent over time?

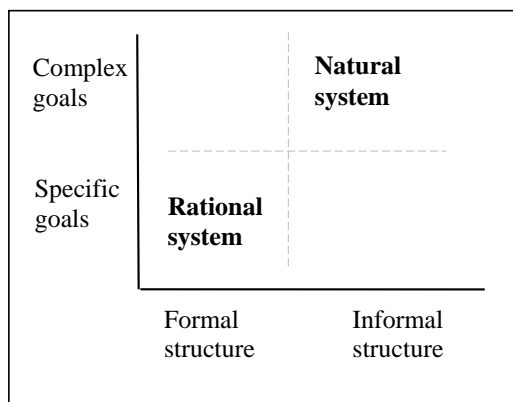
All these questions are related to how the joint venture can be viewed as an organizational system, or how joint ventures are perceived and what their primary motives are. Should a joint venture be viewed primarily as a closed rational creation which is designed to achieve the goals of the parent organization through a highly formalized organization? Or is the joint venture instead to be seen as an open and natural system, interdependent with the environment, with complex goals and where informal structures are more important than the formal organization?

### 10.1 Rational versus Natural Systems

If an organization is to be viewed as a rational or a natural system<sup>80</sup> is often discussed in terms of *goals* and *structures*.

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<sup>80</sup> The discussion about whether or not organizations should be viewed as rational and closed systems is not new *per se*. For main organization theory this debate is especially present in the literature of the late 1960s. However, in the JV literature this discussion has been absent. Also in the main organization theory this debate is less articulated today. The reason, it has been argued, is because viewing organizations as open and natural no longer is conspicuous. Nevertheless, also most recent organization theory authors presume that organizations behave rational and analyze them as closed systems. For a more comprehensive discussion about this see Ashmos and Huber (1987).



**Figure 59: Rational versus Natural System**

These extremes can be structured in a two-by-two matrix with goal specificity/complexity on one axis and formal/informal structure on the other. The continuums are adapted from Scott (1992).

### 10.1.1 Rational systems perspective

A characteristic of a *rational systems approach* is that it fundamentally views the organizations as a “machine” with exchangeable parts. Thus, to reduce the influence of individuals and the environment on the organization is important.

According to Thomson (1967) organizations are characterized by at least three components: input activities, technological activities and output activities. These are interdependent of each other as well as of the environment. In order to achieve organization rationality, *goal specificity* and *formalization* of these components are needed. Goal specificity and formalization contribute to the rationality of the organizational action (Scott, 1992).

#### Goal Specificity

The rational systems perspective is also based on the prerequisite that organizations are “*oriented to the pursuit of specific goals*” (Scott 1992; p23). However, Simon noted as early as 1964 that “*goals that actually underlie the decisions made in an organization do not coincide with the goals of the owners, or of top management, but have been modified by managers and employees at all echelons*” (Simon 1964, p2). In addition, the relationships between the actions and the motives behind them are often not clear since these relationships must be understood from the perspective of the surrounding conditions, as well as the whole chain of events (Simon, 1964).

The solution from the rational (open) systems perspective is to refer to the goals of the *dominant coalitions* as the goals of the organization (Scott, 1992). These are the goals of dominating groups of individuals that pursue certain interests (Cyert & March, 1963).

### **Formalization**

Formalization can be defined as “*an attempt to make more explicit and visible the structure of relationships among a set of roles and the principles that govern behavior in the system*” (Scott 1992; 31). Formalization is an important feature of the rational systems approach since it reduces the individual influence on the organization. Formalization is further a way to deal with environmental disturbances. In order to protect the organization from environmental influence Thomson (1967) suggests that companies should:

1. Seal off their technologies from environmental influences
2. Buffer environmental influences through controlling the input- and output components
3. Smooth out input- and output transactions
4. Adapt to environmental changes that cannot be naturalized (through buffering, leveling or forecasting)
5. When unable to protect core technologies from environmental influences undertake rationing

#### **10.1.2 Natural systems perspective**

Researchers that view organizations as natural systems emphasize that organizations are primarily collectives. In addition, organizations have a strong urge to survive and to remain as systems. The natural systems analysts acknowledge that there exists a difference between how organization members act and the normative structure of the organization. This calls the importance of goal specificity and formalization (the important concepts of the rational perspective) in organizations into question. Natural systems analysts instead emphasize the importance of *goal complexity* and *informal structures* (Scott, 1992; Selznick, 1948) for the behavior in the organization.

### **Goal complexity**

Natural systems analysts argue that goals in organizations are ambiguous since a disparity between the official and the actual goals of the organization exists (Scott, 1992). In addition, even though the official goals may be carried out, they are not the only or even the most important goals of the organization. This holds especially true for organizational goals endangering the survival of the

organization. When the individual is threatened official demands may also be resisted (Selznick, 1948).

### **Informal structures**

The importance of informal structures is emphasized by the natural systems analysts. Barnard (1938) concludes that “*when formal organizations come into operations, they create and require informal organizations*” (Barnard 1938; p120). An important aim of these informal structures is to create a common purpose, or a higher morale, since it is through this process that individual interests are subordinated the cooperative whole (Barnard, 1938). Selznick (1948) writes that a “*proper understanding of the organizational process must make it possible to interpret changes in the formal system – new appointments or rules or re-organizations – in their relation to the informal and un-avowed ties of friendship, class, loyalty, power cliques, or external commitment*” (Selznick 1948; p27).

#### **10.1.3 Rational versus natural systems in JV literature**

The articles about perceived performance published between 1990 and 2006 in the 20 most influential management journals and henceforth referred to as the *perceived performance literature*<sup>81</sup> view joint ventures from a rationalistic perspective. This is not explicitly mentioned in those articles, but I will in the following section show that this is a reasonable reading of the literature.

### **Performance studies assume that goals are specific**

The large majority of the articles presume that there is one (or more) specific goal that the parents of the joint venture seek to achieve through the joint venture. In the articles it is often argued as if the joint ventures were tools in a gigantic tool-box of different managerial strategies:

*“Strategic alliances are tough to pull off, but they are often necessary. Greenfield strategies take a long time, acquisition targets aren’t always available and simpler approaches like licensing may not be responsive enough.”* (Bleeke and Ernst 1991: p135)

Most articles are based on the implicit assumption that joint venture goals are specific, shared and that they do not change over time. Even though studies acknowledging that differences between the parent organizations’ goals in joint ventures exist (e.g. Choi & Beamish, 2004; Lane et al., 2001; Luo et al., 2001; Pothukuchi et al., 2002); none of these articles directly discuss how these differences influence performance. Even fewer articles consider that goals may

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<sup>81</sup> For a summary of these articles, their study focus and performance measures see Figure 5

change over time. In the perceived performance literature only Ariño (2003) hypothesizes the impact of this change on perceived performance<sup>82</sup>. The possibility of goals being viewed differently within a parent organization, and the resulting impact on perceived performance is not analyzed in any of the articles.

To summarize; the perceived performance literature is implicitly based on the assumption that goals are specific, shared (if not between the parent organization so at least between the managers of each parent organization) and constant. If goals change over time, or are different between joint venture parents, this does not influence perceived performance.

### **Performance studies disregard informal structures**

In the literature only formal structures are considered, even though the importance of informal structures is parenthetically acknowledged in a few articles.

One typical example of this is that respondents from different organizations (parent organizations and/or joint venture general management) are supposed to perceive the joint venture in the same way. Even though a few articles suggest that this may not be the case, respondents from only one of the organizations are often used and their answers generalized to the whole joint venture constellation.

*“The ideal way to test hypotheses on multiparty relationships between cooperation and performance would be to survey individuals from all three parties to an EJV, but this was not possible because of the constraints and limitations of this type of research project. Instead, our study utilizes the second-best survey results, and we applied five stages of validity check for cooperation and performance measures to ensure the credibility of the data.” (Luo and Park 2004 p.148)*

Only three of the reviewed articles discuss that differences in perception between joint venture general management and parent organizations may affect perceived performance. Fey and Beamish (2001) are the first to imply that a joint venture general management may act differently from the parent organizations. They argue that *“Just as a child does not always want to follow its parents’ wishes does a JVO always want to follow its parents’ wishes”* (Fey and Beamish 2001; p.864, emphasis in original). Child (2001) also acknowledges possible differences between parent organizations and general management. In none of these articles the results of these differences in regards to perceived performance are analyzed.

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<sup>82</sup> She argues that “Strategic goal fulfillment captures the accomplishment of initial goals – common or private – [...] and over all performance satisfaction evaluates the accomplishment of common and private, initial and emergent goals altogether.” (Ariño 2003; p74)

The possibility of parent internal problems as the background to dissatisfactory performance is also not discussed in any of the articles.

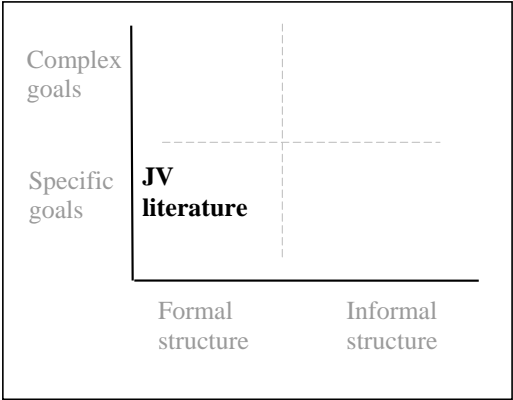


Figure 60: Rational assumptions behind JV literature

To summarize: none of the articles analyzes the informal structures of the joint venture. For example, neither the differences of perception between the general management and the parent organizations nor the differences within a parent organization and which influence this has on performance have been studied.

10.1.4 Rational versus natural systems in Hua Wo case study

From the perspective of the Hua Wo executives a joint venture is fundamentally a rational tool for achieving certain goals through highly formalized means. Again, this is not explicitly spoken of, but I will in the following section show how this interpretation is arrived at.

Not surprisingly a strong urge for rationality and predictability existed in the Hua Wo case. This is especially apparent for VTC, the foreign parent, who wanted to control all the key components (input-, technological- and output activities) of the joint venture. In order to achieve this rationality VTC had articulated both specific goals and created a highly formalized organization. However, when comparing the plan and the rhetoric with the actual outcome it becomes clear that the Hua Wo joint venture was more of a natural and open organization than a rational and closed.

Goals

Just as the rational systems approach suggests, the Hua Wo joint venture had official and specific goals, which mirrored the strategy of the dominant coalition.



One can say that since the VTC stakeholders wanted to have clear and rational goals they created the volume and sourcing goals, which were used as principal goals.

Firstly, Hua Wo had the *volume goal* which manifested that the joint venture should produce 2,500 trucks year 2005 and 10,000 trucks in 2008 (Joint Venture Contract 2003).

The second goal, called the *sourcing goal*, instead pronounced that the joint venture should strive for an increased localized content “*in order to reduce the JV Company’s costs and make the JV Products more competitive*” (Joint Venture Contract 2003, p. 24).

VTC wanted goals that were specific, shared, unambiguous and constant, goals that they decided for the organization. The VTC executives used control and coordination measures to get other stakeholder organizations to work toward these goals. VTC believed in “one best way” and left little room for deviation. VTC had meetings and different forms of artifacts (like budget, business case model, production planning process) to assist in working toward these goals.

However, when scrutinizing the goals of the joint venture it has already been shown that they were more complicated and less stable than can be made out from the Volvo rhetoric.

#### *Unofficial goals*

The Hua Wo joint venture had two official goals. When listing the goals of the joint venture stakeholders at least *twelve* more or less unofficial goals are found. The official goals of the joint venture were the goals of the dominant owner. The goals of the other stakeholders were not stated as official joint venture goals.

Nevertheless, it is clear that also the unofficial goals of the joint venture were essential since important stakeholders worked in order to achieve their respective goals instead of the official goals. Just as the advocates of the natural systems approach argue, the Hua Wo General Management was more interested in the survival and wellbeing of the joint venture organization than in the fulfillment of the official goals of its Volvo parent.

#### *Ambiguous goals*

A second reason for the joint venture goals (both the official and the unofficial) to be regarded as complex is because of their ambiguity.

Of the official goals the sourcing goal was the most ambiguous, since no definitive and quantifiable level was decided. Firstly, since it was vaguely expressed and open for discussion, different stakeholders interpreted it differently. To articulate this goal in such a vague way highlights another issue related to the ambiguity of the official goals, namely that the constitution of the dominant coalitions of the two official goals were different.

The foreign parent organization was the dominant stakeholder for the volume goal, since it officially controlled all the activities related to this goal. However, for the sourcing goal the foreign parent was not the dominant stakeholder, since it could not control the activities associated with the sourcing goal. Following this, it makes sense that the sourcing goal was not written in absolute terms. Instead the sourcing goal was articulated in a way that gave the stakeholders large room for maneuver.

The unofficial goals of the joint venture were prone to be ambiguous, especially since only a few of them were articulated in print.

#### *Different interpretation of goals*

In line with the vagueness of the sourcing goal, the different stakeholders interpreted this goal differently.

The unofficial goals were also interpreted differently, and the different stakeholders and/or stakeholder organizations had clear ideas of which goals their counterparts ought to have. These opinions were noticeable in two ways: firstly that the executives had clear opinions about how the other executives and stakeholders ought to act and think, and secondly that they were dissatisfied with the way that the other executives and stakeholders actually did act and think.

#### *Changing goals*

Goals changed over time in the Hua Wo case. This holds true also for the importance which was attached to the different goals.

For the official goals it is evident that when the volume goal became less important, the sourcing goal became *more* important. When the volume goal was not achieved, very little time was spent on evaluation; emphasis was instead put on achieving the sourcing goal.

In addition, the unofficial goals of the joint venture changed over time. This is especially noticeable for the goal of independence of the Hua Wo General Management which became stronger over time.

## Structure

The parent organizations of the Hua Wo joint venture originally disregarded informal structures. Both organizations presumed that their representatives in the Hua Wo management shared the goals and strategy of their respective mother companies.

In addition, VTC wanted to have as high a formalization level in the joint venture as possible. From the beginning great emphasis was put on formal controlling and coordination of the activities in order to support the formal organization<sup>83</sup>. When the VTC executives became aware that informal structures were more important than the formal organization they used different strategies.

The different strategies that were used, namely to ignore the informal structures, to formalize the informal organizations, to form coalitions, and finally to abandon the formal organization, were used in parallel with each other for different activities.

### *Ignoring the informal structures*

The first way to deal with the informal structures was to ignore and disarm them. This was especially apparent in the first conflict between the VTC commercial side and the Hua Wo General Management. When the VTC commercial side was not able to ignore the importance of the informal structures for the management of the joint venture the first action was to appoint new managers to the joint venture. When this proved unsuccessful<sup>84</sup> the VTC organization instead tried to formalize the informal structures.

Another way of dealing with the need for and use of informal structures, which was used during the operations phase, was through working with double standards. One example of this was that the production volume plans by the Beijing VTGC organization were often changed by the Global Manufacturing managers in Gothenburg. This practice was regularly used and acknowledged by the industrial side, but not openly discussed.

### *Formalizing the informal structures*

During the establishment of the joint venture the formal structures of the joint venture were challenged, and outmaneuvered, several times and in many ways. The executives of VTC, the dominant parent, resisted this. When the VTC

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<sup>83</sup> Examples of means for formalization which were used are: production plans, factory lay out plans, budgets, capital contribution plans, business case models, M.o.U., contracts, formal discussions, formal project meetings, formal work shops, joint venture executive committee meetings, formal negotiations, PNL, formal letters

<sup>84</sup> Which was shown through the debacle in the Second Joint Venture Board Meeting

executives found that they could no longer ignore the informal structures they instead tried to formalize them. One example of this was the establishment of the joint venture executive committee meetings. Another example was when the production planning processes were standardized.

However, it was not easy for VTC to know which informal structures that existed and which of these were important. This led to frequent discussions about which executives and which stakeholder organizations that should be included in the meetings.

#### *Forming coalitions*

When the importance of the informal structures for the joint venture outcome became more apparent, and the strategy to formalize them had failed, several coalitions were entered. When VTC allied with Powertrain the Hua Wo General Management instead entered into more or less formal alliances with CNHTC and 3P. During the joint venture operations several other alliances between the main stakeholders were also founded and terminated.

#### *Abandoning the formal structures*

The importance of formalization is especially emphasized in the Single partner's managed activities such as the production planning and the product cost calculation activities. But in reality both these activities were managed informally. *Production planning* through informal discussions between Global Manufacturing appointed managers in Jinan and Gothenburg and *Product cost calculation* through informal meetings between business controllers in Gothenburg, Jinan and Beijing.

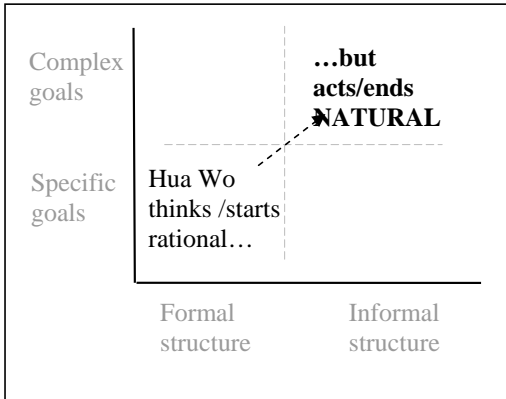
Actually, the informal meetings and discussions enabled the operational work to be carried through, even though deadlocks between VTC Greater China and the Hua Wo joint venture General Management often existed.

However, also for the other activities both formal and informal channels were used. For the CNHTC Ho Wo Truck Marketing activity informal discussions were initiated from the very beginning. For most of the strategic activities informal relationships became important when the formal ways had proved to be inefficient.

### **10.1.5 Summary rational versus natural systems perspective**

When evaluating the Hua Wo joint venture from the perspective of a rational versus a natural systems approach a difference between plan and outcome emerges.

The Hua Wo goals were complex since both official and unofficial sets of goals existed, because these sets of goals (both the official and unofficial) were ambiguous, interpreted differently by different stakeholders, and as they changed over time. Informal organizations proved to be more important than the formal structures, since informal constellations were essential for managing the activities.

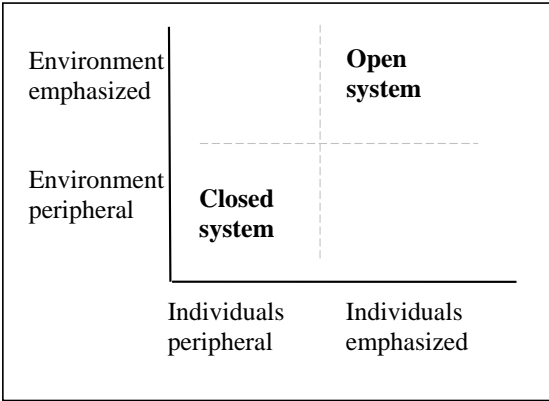


**Figure 61: Rational and natural assumptions behind Hua Wo Case**

To conclude: When the joint venture was planned specific goals and formalized structures were sought for. Nevertheless, the result became complex goals and informal interests' formations. As a result of the *time of duration* both goals and structures changed during the JV establishment. Consequently, the Hua Wo joint venture should be viewed as a natural system rather than as a rational system.

## **10.2 Closed versus Open System**

If a joint venture is viewed as a closed or open system can be seen in the management focus, through whether only the organizational level is considered, or if influences from the environment and individuals are also taken into account.



**Figure 62: Closed versus Open System**

The extremes, *Closed* versus *Open System*, can be structured in a two-by-two matrix of *environmental consideration* on one axis and *individual consideration* on the other. The continuums are deduced from the attributes of the organization theory literature on closed and open systems.

**10.2.1 Closed systems perspective**

Closed systems analysts primarily focus on the internal variables of the organization (Ashmos & Huber, 1987). The closed system model of organizations has often been employed by strategists aiming for higher efficiency. Thomson (1967) concludes that: “*part of answer to that question undoubtedly lies in the fact that supporters of each extreme strategy have had different purposes in mind, with open-system strategists attempting to understand organizations per se, and closed-system strategists interested in organizations mainly as vehicles for rational achievements.*” (Thomson 1967; p9)

However, the closed system rational model has been called into question since it is said to ignore the importance of the organization’s interdependence with its environment (Thomson, 1967). Another critique is that these studies assume that environmental influence is something that should be excluded from, and controlled out of, studies of organizations (Katz & Kahn, 1966).

**Disregarding the environment**

The tendency to ignore the environment will result in that environmental influence is reduced to error variances that should be guarded against or even ignored. Katz and Kahn (1996) conclude that:

*“Traditional organizational theories have tended to view the human organizations as closed system. This tendency has led to a disregard of differing organizational environments and the nature of organizational dependency on the environment. It has led also to an overconcentration of principles of internal organizational functioning, with consequent failure to develop and understand the processes of feedback which are essential to survival.” (Katz and Kahn 1966; p29)*

### **One best way- thinking**

According to Katz and Kahn (1996) the closed system perspective is based on the assumption that in order to reduce uncertainty (Thomson, 1967) there exists only one way to a given outcome (Katz & Kahn, 1966). This emphasis on “one best way” will give the result that too much emphasis is put on *coordination* and *control* (Katz & Kahn, 1966). The result of a strong emphasis on internal activities is a belief that *“problems can be solved by changing elements within the organization, without regard to their contextual basis”*. (Pfeffer and Salancik 1978; p8).

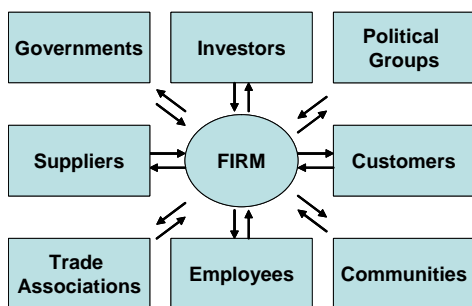
### **10.2.2 Open systems perspective**

To analyze a company without considering the external influence has been criticized in organization theory literature since organizational survival is dependent on the demands of the interests groups upon which the organization is dependent (Pfeffer & Salancik, 1978). Simon (1964) emphasizes the importance of environment of the organization and notes that *“we will not often have opportunities for observing birds whose physiological regulators do not reflect these external constraints. Such birds are often extinct.”* (Simon 1964; p20)

Open systems analysts emphasize the organizations’ *external dependence* and *individual interests formations* in the organization.

### **Organizations dependence on external actors**

Open systems analysts in general, and stakeholder theory researchers in particular, stress that a company should not only consider its owners but also other stakeholders (Freeman, 1984). Stakeholders can be defined as *“Any group or individual who can affect or is affected by the achievement of the organization’s objectives”* (Freeman 1984; p25). Using the Freeman (1984) definition a large number of groups that have an interest in an organization, and thus qualify as stakeholders, can be identified. Stakeholders not only include suppliers, investors, employees and customers, but also public parties such as governments, political groups, trade associations and communities.



**Figure 63: The Stakeholder Model**

*Source: Donaldson and Preston (1995) p69*

The main idea of stakeholder theory is that companies are comprised of interdependent relationships and that companies have to manage these relationships in a strategic way in order to reach the goals and objectives of the organization (Donaldson & Preston, 1995; Freeman & Reed, 1983; Galbreath, 2006).

### **Individual interests formations**

From an open systems perspective the company must also deal strategically with the individual interests in the organization. Cyert and March (1963) write that “*any theory of organizational goals must deal successfully with the obvious potential for internal goal conflicts inherent in a coalition of diverse individuals and groups.*” (Cyert and March 1963; p27) That is because objectives in organizations are often based on goals that are ambiguous, which in turn leads to vague objectives (Cyert & March, 1963). In addition, different members of an organization tend to be pursuing different goals at the same time (Cyert & March, 1963; Simon, 1964).

#### **10.2.3 Closed versus open systems in JV literature**

When studying the perceived performance literature it is easy to think that joint ventures are organizations isolated from other forms of business relationships, other than the relationship between the parent organizations. There are articles that acknowledge that strategic alliances are a part of an inter-organizational network, which Larsson et al. (1998) is an example of, but these articles do not focus on perceived performance.

In all the articles (see *Appendix I – Tables for Performance Studies*) about perceived performance the relationship between the parents are in focus, and perceived performance is discussed only in this respect. Most articles do not consider the joint venture context at all.



## **Performance studies do not consider environmental influence**

When the influence of the environment or industry is discussed it is only indirectly, primarily as influencing the relationships between the parent organizations (e.g. Ariño & de la Torre, 1998; Isobe et al., 2000; Luo et al., 2001; e.g. Yan & Gray, 1994).

*“A major source of host government’s bargaining power against foreign companies is its ability to control market access and hand out or withhold investment incentives. In contrast to foreign firms, which suffer from the liability of foreignness, local business benefit from host government protection.”* (Luo et al. 2001; p44).

Environment is also discussed from the perspective of organizational setting (e.g. Dussauge & Garrette, 1995), as a parent organization attribute (e.g. Lin & Germain, 1998), or even as resulting in a possible bias which limits the generalization possibility of the studies (e.g. Barden et al., 2005; Choi & Beamish, 2004; Gong et al., 2005). This quote, found under the “*Limitations*” heading is an example of this:

*“The present study should be replicated in different national environments to ensure that the findings obtained here are not a product of the Chinese host environment, which is fast changing and is characterized by idiosyncrasies such as special legal framework that further buffers the venture from its parent organizations.”* (Gong et al 2005; p516)

Even though studies show that alliances are formed as a result of the environment (e.g. Pan & Chi, 1999) none of the articles discuss how environmental factors directly influence perceived performance.

In the same way that the importance of the environment on perceived performance has not been analyzed, neither has the influence of other stakeholder organizations such as suppliers been studied. In the articles, suppliers are only mentioned peripherally, for example that a joint venture can lead to enhanced bargain power towards suppliers (Luo, 2002) and that suppliers can also be a suppliers to the joint venture (Dussauge & Garrette, 1995; Ernst & Bamford, 2005).

To summarize, the perceived performance literature does not consider the importance of the environment and/or stakeholders other than the parent organizations (in a few articles also the joint venture general management) when analyzing direct impact on perceived performance.

### **Individual influence is not considered**

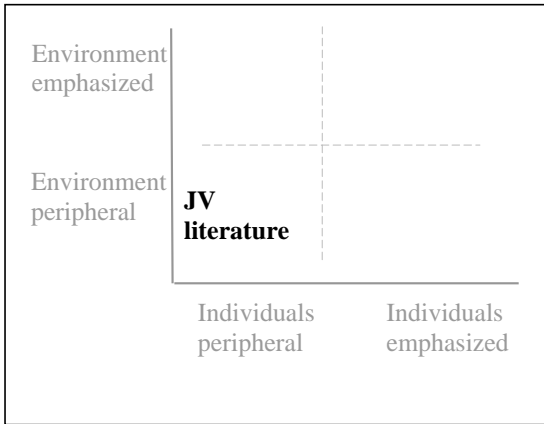
The early perceived performance literature is based on a premise that the perception of joint venture performance is the same for all the members of the parent organizations and the general management of the joint venture. Even though most recent studies acknowledge that this may not be the case, they nevertheless assume that *one single respondent* can answer for the perceived joint venture performance of both the parent organizations and the general management. Even though most authors acknowledge that differences between parent organizations may exist, the importance of individuals and individual action is not considered. The nearest to studying individual action is Ernst and Bamford (2005) who anecdotally mention that “*restructuring almost always requires senior executives in both companies to become involved. Yet these executives may not be on the venture’s board, and it might not be obvious who owns the decision about when to restructure.*” (Ernst and Bamford 2005; p135) Also Child (2002) mentions individuals in his study by quoting an expatriate general manager who says that:

*“One of my biggest disappointments has been that my company in the UK for one reason or another believes that ‘one man and his dog’ can managed a joint venture company in China”* (Child 2002; p804).

If individuals are close to invisible in the performance literature, the thought of “*one best way*” is the more visible. This holds especially true for the discussions about control in joint ventures.

Control is usually seen as a prerequisite for a successful joint venture since “*control is essential to IJV evolution and growth*” (Luo et al. 2002; p42). However, studies of control have produced conflicting result since the evidence from studies of the relationship between parental control and perceived performance is mixed (Child, 2002). This has lead to a lengthy debate within the perceived performance literature whether dominant parental control is more efficient than shared parental control. (For a comprehensive summary of divergent result studies of the effectiveness of dominant vis-à-vis shared parental control see Choi & Beamish, (2004)). This mixed result “*suggests the presence of subtleties by way of conditional and mediating factors that only a closer case-study type examination may uncover*” (Child 2002; p787).

However, in the perceived performance literature none of the articles analyzes the dynamic aspects of control such as how control relationships between parent organizations evolve over time. Neither is it discussed how control relationships among other joint venture stakeholders influence performance. Not even the issue of whether control is at all important is addressed.



**Figure 64: Closed system assumptions behind JV literature**

To summarize, the JV perceived performance literature (in *Figure 64* abbreviated “JV literature”) does not consider the importance of environmental variables, nor does it assign importance to individuals in joint ventures. Instead the articles are based on the assumption that members of a parent organization or the joint venture general management are interchangeable and that they always act as representatives for the joint venture. There is a strong belief in the importance of control relations between the parent organizations.

#### **10.2.4 Closed versus open systems in Hua Wo case**

One of the characteristics of the closed systems perspective is that only the organizational level is in focus for management attention. Similar to this the Hua Wo executives originally acted like they were part of a closed system since neither environmental influence nor the importance of individuals within the stakeholder organizations were considered. However, during operations the executives began to reconsider. This reconsideration was a result of different incidents having a great effect on the Hua Wo activities.

#### **Environment**

Just like the closed systems analysts suggest, the environmental influence was not emphasized by the joint venture executives. The VTC executives even tried to preclude the influence exercised by other stakeholder organizations through different control activities. When VTC was unable to control the stakeholders, emphasis was instead put on reducing the influence of these stakeholders.

### *Buffering from environmental influence*

The VTC executives' relationship to the environment, especially legal and political authorities, was not without problems. The VTC executives were aware of the environmental importance right from the start, but tried hard to reduce the importance of this influence<sup>85</sup>. An example of this was the production processes where VTC, at least partially, achieved control over both input, technology and output transactions. In addition, great emphasis was put on forecasting and planning.

### *Trying to control stakeholder organizations*

One example of how VTC tried to reduce its dependence on the environment and stakeholder organizations was the effort in controlling the supplier organizations. The urge for control was especially apparent in the relationship toward the 3P organization which was seen as a support function by the VTC executives. However, the supplier organizations opposed this and VTC was thus unable to carry through its sourcing strategy.

### *Managing results of environmental disturbance*

The Hua Wo executives had to manage despite the disturbance caused by changes in the environment, especially the results of the new automotive legislation. When failing with disarming the outcome caused by the new automotive legislation VTC undertook buffering and finally the company exported the stock of trucks abroad.

### *Adapting to changing environment*

After a while, the VTC executives started to adapt to the new environment. During the re-orientation phase the executives undertook several activities in order to deal with the new situation. For example, a new project that would develop "the Chinese Volvo" was established.

At the same time the VTC executives still argued in line with a closed system perspective, as they strived for more control and less unpredictability. This is especially noticeable when talking about the Chinese political system which the VTC executives argued was bound to change in a more transparent and predictable direction.

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<sup>85</sup> In line with suggestion from Thomson (1967)

### **Importance of individuals**

From a closed system perspective it is the organizational activities that are in focus, and individual influence is not considered. From the perspective of VTC this issue was a bit problematic since the formal joint venture stakeholder organizations were based on a mechanistic view, while at the same time, individuals played important roles in the informal structures. For VTC, two lines of command existed: the formal structure, where individuals were only the representatives for their organizations and the informal structures where individuals had a relatively large amount of room.

#### *Designing a mechanistic organizations*

Officially, and in VTC rhetoric, the joint venture organization was designed in order to mirror the parent organizations. One example of this is that VTC took for granted that the VTC appointed JV General Manager would only behave in the interest of the parent organization. However, the informal VTC culture left relatively a lot of room for individual action.

#### *Relying on individuals: for better or worse*

Even though VTC has a strong tradition of a mechanistic way of viewing people, in practice individuals played important roles. In addition, the VTC culture, with its long standing conflict between the industrial and commercial sides of the company gave rise to a relatively large extent of freedom for the joint venture executives. This, taken together with the strong informal structures, left the executives with opportunities to exercise influence.

When the formal structures proved to be insufficient for managing the activities, individual action proved to be essential for the outcome.

Examples of this were:

- *Homologation*, which was managed partly through the personal relationships of the Hua Wo Deputy GM (Li Yanshou) and partly through the personal relationships of the VP of VTGC (Benny Wen)
- *Painting and Welding Operations Establishment*, which was the result of informal discussions between the Hua Wo GM (Jon Andersson) and the chairman of CNHTC (Cai Dong)
- *3P Sourcing*, which was heavily influenced by the absence of one particular executive (Bo Kringström) from the joint venture executive committee meetings

10.2.5 Summary of closed versus open systems perspective

When assessing the Hua Wo executives’ behavior from a closed versus open system perspective, a difference between actions and rhetoric appears. Typically, the activities were originally dealt with as inter-organizational issues, but this perspective was later transformed as environmental changes lead to a need for change. The need for change gave rise to a heavy dependence on fast action, which in turn resulted in a dependence on individual action.

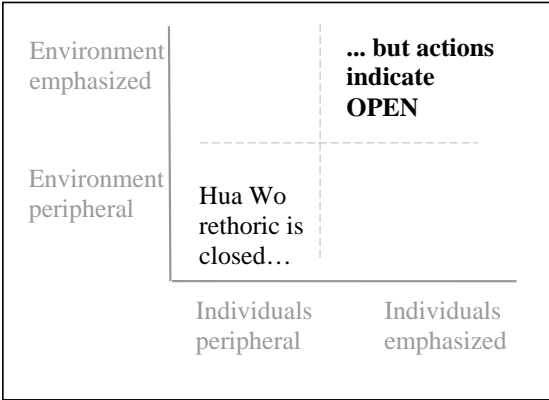
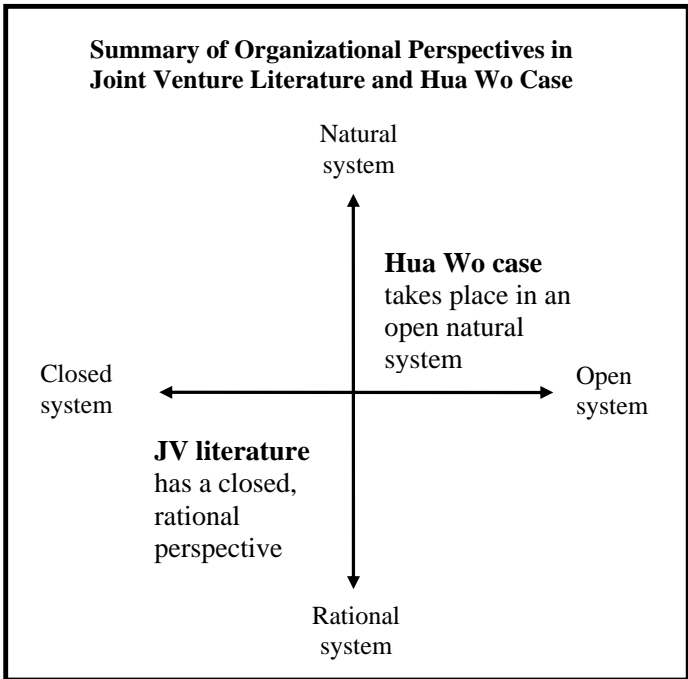


Figure 65: Closed and open system assumptions in Hua Wo case

To conclude, when the joint venture was planned, the importance of the environment and individual action was disregarded. However, environmental changes proved to be very important for the joint venture stakeholders. These changes were managed through adaptation to the new environmental conditions, mostly through informal solutions in activities driven by individual conviction. Thus, to understand JV performance both individual action and environmental influence should be considered, which means that the *size of the JV system* becomes important. Consequently, the Hua Wo joint venture should be viewed more as an open system than a closed system.

10.3 Analysis of Perspectives

When the outcomes from the discussion about basic assumptions in joint venture perceived performance literature compared with the Hua Wo case are summarized major differences appear.



**Figure 66:** Comparison of assumptions underlying JV literature and Hua Wo case

Even though the Hua Wo executives viewed, or at least wanted to view, the joint venture as a rational and closed system, in practice the Hua Wo joint venture was more similar to an open natural system. The greatest difference if looking at the JV as an open natural system instead of as a closed rational system is that focus is changed. JVs are dynamic and should be analyzed over time, and as systems.





## PART V. CONCLUSIONS AND IMPLICATIONS



## 11 Concluding Discussion about JV Performance

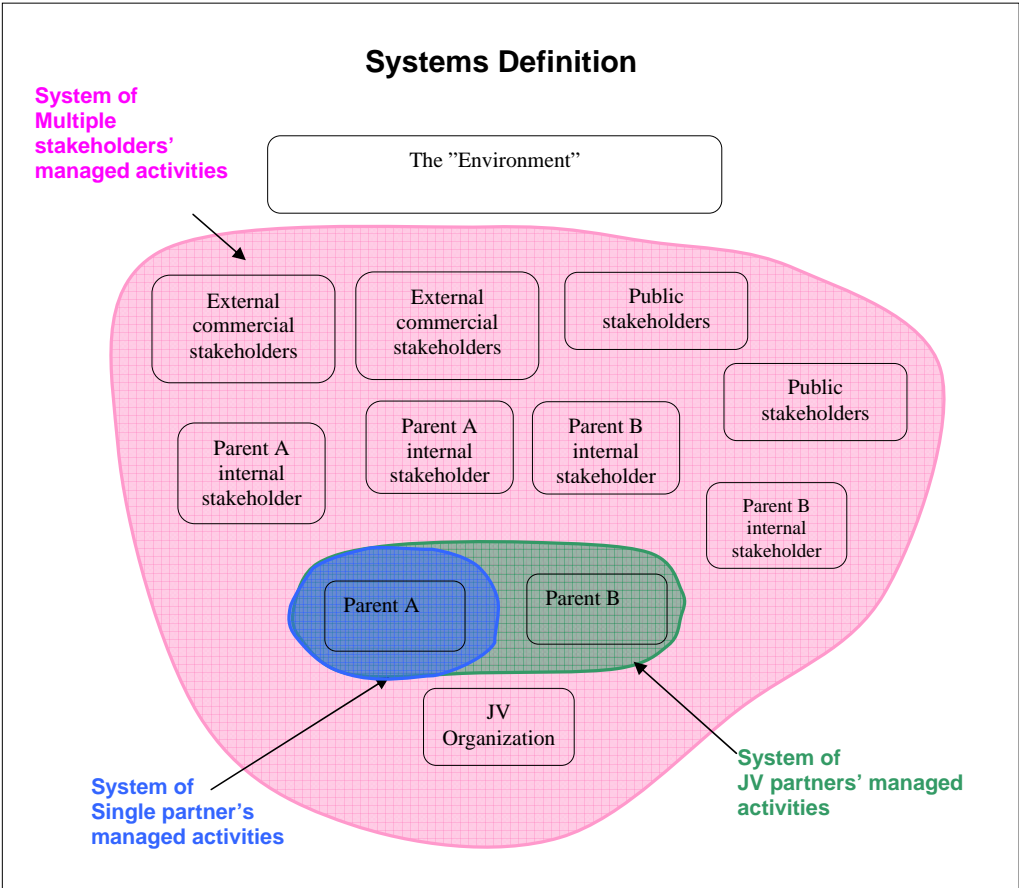
*“Alliances should not be viewed as if they occur in a vacuum, but as parts of organizations’ strategic portfolio of evolving inter-organizational relationships over time.” (Larsson, Bengtsson et al 1998; p302)*

If joint ventures are seen as open natural systems, what implications does this have on analyzing JV performance? As the findings from the earlier chapters have shown, the main factors to consider are the *size* and the *duration* of the system. Taken together, these two factors determine the configuration of the elaborated performance model.

### 11.1 System Definition

From the categorization of activities according to management it has been shown that the operations in the JV can be classified according to the size of the JV system in which they take place. (For a detailed description see section “7.2 Activities Sorted by Stakeholder Involvement”)

How an activity, or a goal, of a joint venture should be managed, is thus dependent on the size of the system. (For a graphic illustration of the restricted system see “Figure 52: Stakeholders of “the Volume goal” of the Hua Wo joint venture”, for the extended system see “Figure 53: Stakeholders of “the Sourcing goal” of the Hua Wo joint venture”).)



**Figure 67: Schematic illustration of systems definitions**

A graphical illustration can be used in order to identify the size of the system. Examples of elements in a joint venture system are: joint venture organization, parent organizations, parent internal stakeholders, external commercial stakeholders and public stakeholders. As the *Figure 67* serves only as an illustration, the figure does not correspond to the case studied.

*Single partner's managed activities* take place in a restricted JV system consisting of only the foreign partner in the JV. The management of activities in this category requires either the other partner, the joint venture organization or commercial and/or public stakeholders.

With regard to the *Joint venture partners' managed activities*, these activities take place in a system consisting of the JV partners. It is this system, the system of the

joint venture partners managed activities, which the JV literature usually considers when analyzing joint ventures.

The *Multiple stakeholders' managed activities* take place in an extended JV system. This system consists of a large number of stakeholders. In the case of the Multiple stakeholders' managed activities, commercial stakeholders have an impact through *stakeholder relations* and public stakeholders through *political influence*.

To conclude, the size of the JV system is different for each of the three categories of activities. In addition, only the system of the JV partners' managed activities correspond to the traditional definition found in the JV literature.

## **11.2 Estimation of Duration**

Adding the time aspect of performance to the systems definition, a schematic picture of "system sensitivity" can be drawn. From the case analysis a difference of activities from the perspective of duration has been shown (see section "7.1 Activities Sorted by Duration").

Firstly, there were the activities *restricted* in time. These activities were of a project type, and they were typically initiated to answer specific aims. The other type was the activities that were *extended* in time. These activities were meant to create routines for the JV operations.

The time of duration of the activities did not predict performance *per se*. In the case study both restricted and extended time activities were viewed as failures by the executives, from both the perspectives of goal achievement and overall satisfaction. In the same way, there were also both restricted and extended time activities which were viewed as successful. For both types of activities, the assessment differed among the stakeholders.

Even though the duration aspect did not determine performance, the time factor had an influence on the factors which affect perceived performance. In the case the goals, stakeholder relations, political influence and control changed over time. However, different concepts were more important for the restricted time activities than for the extended time activities, and vice versa. One example is that *goals* were more important for *restricted time activities* and that *control* was more important for *extended time activities*. In addition, for the extended time activities *informal structures* were more important than for the restricted time activities.

11.3 Combining System Size and Duration

It seems as though longer duration influenced the Single partner’s managed activities positively, whereas longer time had a negative impact on the Multiple stakeholders’ managed activities.

The two *Single partner’s managed activities* which were viewed as successful from the perspective of goal achievement and satisfaction are examples of this. Both activities, namely *Production planning* and *Product cost calculation* activities, improved over time.

However, the *Multiple stakeholders’ managed activities* did not improve over time. The two Multiple stakeholders’ managed activities, considered successful (by most of the executives), namely the *Homologation* and the *Painting and welding* activities, were restricted in time. The Multiple stakeholders’ managed activities which were extended in time, *3P sourcing* and *Engine JV*, were instead viewed as unsuccessful. These activities actually went from bad to worse as time went by.

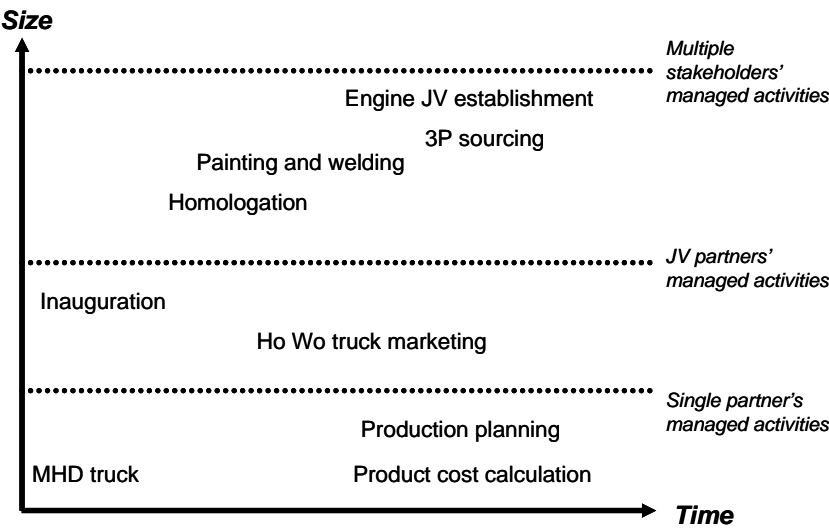
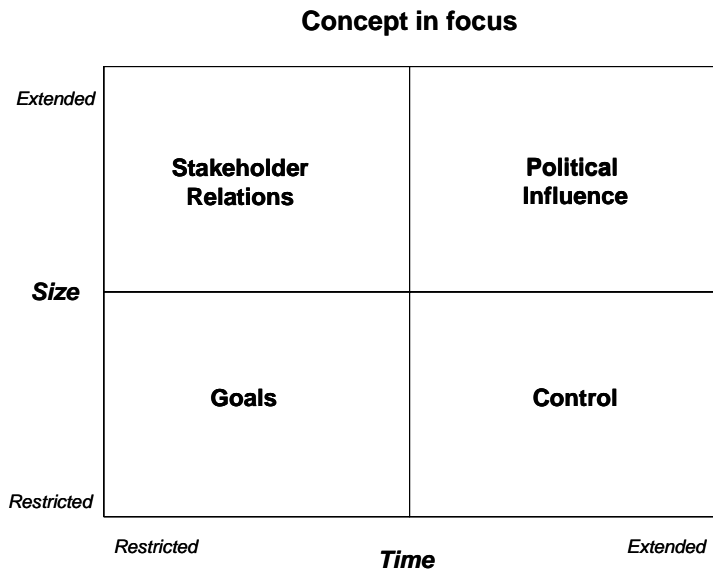


Figure 68: Activities placed into matrix of size and time

Placing the activities into a matrix, with system size on one axis and time on the other, one can see that different key concepts are in focus for different configurations. In the figure, both multiple stakeholders’ managed activities and JV partners’ managed activities are classified as taking place in extended systems.



**Figure 69: Performance concepts in focus (for different combinations of systems size and duration)**

For the activities restricted in system size and time, *goals* are most essential for perceived performance, and the focus of perceived performance is *goal achievement*. If no other stakeholders are able to influence the achievement of the goal, and the time is too short to allow any changes to the goal, the goal *per se* is the most important predictor whether it will be achieved or not. The findings from the case study support this assumption, as the most important reason for the failure of the *MHD truck introduction* was that the goal in itself was unattainable.

For the activities which are restricted in system size, but which continue over a long period of time, *control* is more important than goals for perceived performance. For these activities *overall JV satisfaction* is more important than goal achievement. Goals are not as important for the longer activities as for the shorter activities, since goals can be adjusted over time. In addition, as there is time for *informal structures* to form, problems that arise can be solved informally. This, together with control and coordination efforts, lead to goal achievement and overall satisfaction. The findings from the case support this assumption, as demonstrated by the *Production planning* and *Production cost calculations* activities.

The activities taking place in an extended system, but over a restricted period of time, have *stakeholder relations* in focus. As these activities are dependent on a tenable relationship between the stakeholder executives, there is also a

considerable scope for *individual action*. Examples of this from the case are the *Painting and welding* and the *Inauguration* activities.

Finally, for the activities taking place in a larger system over a longer period of time, *political influence* is in focus. This seems to be the result of the fact that the activities become vulnerable to political intervention as time passes. As the manageability of the activities of this group is lower than for the other groups, *informal alliances* between individuals and organizations play an important part. Both the *3P sourcing* and the *Powertrain* activities are example of this.

11.4 Sensitivity Graph

The main finding from correlating system size and time is that the importance of the concepts within the model, and the relationships between them, cannot be described in a static model, since the constellation and importance of the concepts vary with the system size and over time. Instead, different *configurations* of the model should be used for different scenarios regard of system size and expected duration. The term sensitivity means that the activity becomes vulnerable to changes which have a negative influence on perceived performance.

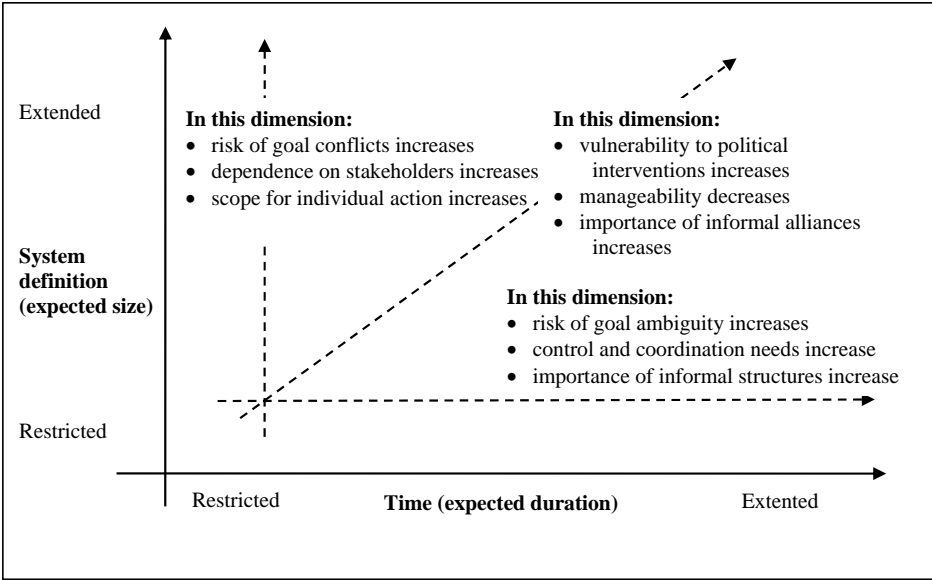


Figure 70: Sensitivity graph: estimation of sensitivity from systems size and time

When the *system size is extended*, there is a greater risk of goal conflicts. In its turn goal conflicts lead to management complexity. For activities in the extended



system, vulnerability and dependence on other stakeholders is higher than in a restricted system, which in turn leads to room for individual actions. This is a result of the fact that the need for functioning stakeholder relations increases as the system grows.

The effect of *system size on perceived performance* is not self evident. It seems that activities carried out in an extended system over extended time are less successful (regarding goal achievement and overall satisfaction) than the activities of the extended system which are carried out during a restricted time. Examples of this are that both the production cost calculation and the production planning activities were viewed as more successful than the engine JV and the 3P sourcing activities.

If the *duration of time is extended*, the risk of goal ambiguity for the JV activities increases. Over a long period of time, goals change more than they do during a restricted time period. That goals change leads to a greater need for flexibility, which promotes the forming of informal structures. For this to be manageable the need for control increases.

The *effect of time on perceived performance* is not unambiguous. From the case study it is reasonable to conclude that perceived performance is negatively related to an extension in time for activities carried out in an extended system and positively related to the activities carried out in a restricted system. An example that time seems to be beneficial to the restricted system activities is that Production planning was viewed as more successful than the MHD truck marketing. That the Engine joint venture and 3P sourcing activities were viewed as less successful than the Inauguration and Homologation activities are examples which show that extended time was negative for the activities of the extended system.

If both the *size of the system and the duration of time are extended*, the dependence on environmental factors, such as stakeholder relations and political influence, increases. If both system size and time are extended, the manageability of activities decreases. As the increase in the size of the system combined with duration leads to increased importance of political influence and control. Taking the case study as the point of departure, an extension of both time and system size for the JV activities seems to be negative to perceived performance. One example of this is that the Engine JV and 3P sourcing activity were viewed as unsuccessful by all the stakeholders involved, both from the perspective of goal achievement and overall satisfaction.

## **11.5 New Research Agenda**

Following the findings from the dissertation, I propose several implications. A new research agenda for joint venture performance should acknowledge the importance of the:

1. Definition of performance and performance measures
2. Identification of stakeholders for assessment and evaluation of performance
3. Influence of duration on performance

### **Definition of performance and performance measures**

In order to analyze joint venture performance the measure that is used is essential. Not only is the difference between objective and subjective measures important but the findings from the case study show that there are also significant differences between subjective measures. Strategic goal achievement and overall satisfaction cannot be assumed to measure the same construct.

The reason why strategic goal achievement is different from overall satisfaction is because joint venture satisfaction covers more than strategic goal achievement, the most typical in the case study being the outcome of control ambitions. The findings from the case study do not support the statement of Ariño (2003) that overall satisfaction only evaluates the achievement of goals, even if the unofficial and emergent goals are added to the initial and official goals.

### **Identification of stakeholder for assessment and evaluation of performance**

The next step in analyzing joint venture performance is to identify the relevant stakeholders for joint venture assessment. Based on the assumption that the joint venture is more similar to a natural open system than a rational closed, a few important issues should be considered:

Firstly, it is important to take into account the fact that formal structures and *informal interests' formations* are not the same, and should not be treated as such. From the case study, it is clear that the joint venture general management and the foreign parent organization assessed performance differently; but differences also existed within the foreign partner between the “industrial” and “commercial side” of the company.

In addition, the *individual aspect* should be acknowledged. The case study shows that individual action is essential for performance.

The recommendation, in contrast to the widely used practice to interview only one or very few respondent from the joint venture general management and/or parent

organization(s) in order to assess joint venture performance, is to widen the group of respondents. A study of joint venture performance should include respondents from the joint venture organizations as well as both/all the JV partner organizations, at a minimum. The use of one single respondent from the JV general management to answer for the joint venture organization as well as the parent organizations, which has been justified with limited support from Geringer (1991), is rejected.

When the performance measures have been decided and the stakeholders that should assess performance are identified, the next step is to identify stakeholders that are influential for performance. It is important to note that in a natural open system, the numbers of stakeholders that are able to influence performance in all probability are larger than the number of stakeholders that are selected in order to assess performance. In addition, it is most likely that many of the stakeholders able to influence performance cannot be managed by the joint venture and/or the parent organizations. This holds especially true for a public stakeholder exercising political influence.

Consequently, when analyzing JV performance, researchers should be open to the fact that what decides joint venture performance is often outside what has traditionally been viewed as the joint venture system.

### **Influence of duration on performance**

The final important issue to consider when studying JV performance, is duration. When discussing joint venture performance, regardless of how the time the study covers should be stated clearly.

From the case study, it is shown that joint ventures can be seen as natural open systems. In addition, the time aspect has been shown to influence performance. In order to study natural open systems, to capture the dynamics of joint venture performance, and comprehensively analyze the complex performance relationships, qualitative longitudinal real time studies should be used rather than quantitative surveys.

## **11.6 Contributions**

This dissertation has provided several contributions to the JV perceived performance field of studies.

In the area of *methodology*, it has shown that the subjective measures “strategic goals achievement” and “overall satisfaction” are not interchangeable. The dissertation has further highlighted the importance of longitudinal studies, as well as of including a larger number of stakeholders.

With regard to the *JV performance literature*, this dissertation has addressed the importance of system size and duration when evaluating JV performance. Further it has been shown that earlier literature, and its limitations, can be understood from a closed-rational system perspective. By means of the elaborated performance model and the sensitivity graph, this dissertation offers an alternative framework to understand joint venture performance. Further, the dissertation has shown that all the key concepts of the elaborated performance model influence perceived performance. However, the importance of the concepts, as well as the configuration of the elaborated performance model, varies for the different activities.

*The Managerial implication* of this dissertation can be summarized as the importance of taking system size and duration into account in the management of joint venture activities. In addition the sensitivity graph can be used as a risk measurement in JV related activities. The long and detailed story of Volvo in China could in itself provide useful insights for further China establishments.

### **11.7 Future Research**

Implications for future research, considering the results presented in this dissertation, are somewhat ambiguous. On the one hand, the findings from the dissertation indicate that management really matters. For example, for the activities which improved over time also management routines improved. Management and organization, especially for the foreign partner Volvo Trucks affected perceived performance in the case studied. In future studies the management and organization of a partner organization in relation to joint venture perceived performance could hence be investigated further. On the other hand, the case findings also show that the management of the joint venture was deeply influenced by institutional factors. This suggests that management of the joint venture might be subordinated the environment for perceived performance. In future studies, the impact of the business environment on perceived performance should be studied further.

One area for future research is thus how the foreign partner's internal organization influence perceived performance. In the case the foreign partner of the joint venture was organized into a matrix organization at the time of the JV operations. The structure of the foreign partner influenced the activities managed, especially these activities which were managed mostly by the foreign partner and its supplier organizations. This finding is supported reviewing some of the problems related to the matrix organization in general suggested in the literature. Examples of common problems in the literature on matrix organizations are misaligned goals, ambiguous authority, sub-focused employees (Sy & D'Annunzio, 2005) and power struggles (Davis & Lawrence, 1978). Common problems of the matrix

organization can be observed when studying the management of the joint venture activities in the case. To analyze the impact of the structure of the foreign partner on the performance of the joint venture, or more specifically the impact of the matrix organization of the foreign partner on the performance of the joint venture, seems to be a most exciting area for future research.

Another area for future research is to inter-relate joint ventures and the business environment. An example of this would be to study joint ventures as parts of business networks. The great advantage of applying a network approach is that the focus of study is shifted from the single organization to the inter-organizational phenomena (Hellgren & Stjernberg, 1987). An organization in a business network is characterized by that the company's behavior is conditioned by the other organizations of the network and that these relationships make it possible to use resources from the other organizations in the network. Further, capabilities are developed in interaction with the organizations in the network as performance is dependent on the network context (Håkansson & Snehota, 2006). As the organizations in the network are dependent on each other for performance, their activities need to be coordinated. However, since there is no formal authority in a business network, coordination efforts offer special challenges (Hellgren & Stjernberg, 1987). To use a business network approach as an analytic tool would thus enhance the understanding of how inter-organization relations influence perceived performance. It has even been suggested that the network developed by the partners should be used as a main criterion when evaluating the performance of an alliance (Hyder & Abraha, 2006). To conclude, a further area for future research would be to use business networks models in the study of perceived performance in joint ventures.

There is also room for further conceptual development and application with the findings of this dissertation as a point of departure. The analysis of the Hua Wo case showed that the two perceived performance measures *strategic goal achievement* and *overall satisfaction* are not interchangeable. This indicates that future research could be directed towards developing these two subjective performance measures further, to increase our understanding of the similarities and differences between them. Moreover, it would be interesting to use the elaborated performance model, and the different configurations of the elaborated performance model, in order to analyze perceived performance of other Sino-foreign joint ventures, or international joint ventures in general. To conclude, while much has been achieved, more needs to be done in order to understand Sino-foreign joint venture perceived performance.



***Postlude: The Chinese Volvo – November 2008***

*Since the teleconference in June 2004 much has happened. Shortly after the meeting, Volvo Trucks temporarily terminated its production at the Hua Wo factory. As a result, the sourcing endeavors for the Chinese truck production were also put on hold. In late 2005, the engine joint venture plans with CNHTC and FAW were finally abandoned. Instead Volvo Trucks decided to produce a smaller truck, adapted to the Chinese market in one of their already operating joint ventures in China. However, these plans were abandoned in 2006. At the same time, operations at the Hua Wo joint venture were halted indefinitely. Now a new strategy, namely, to grow in China through acquisitions, was implemented. Through the acquisition of the majority of the shares in the Japanese truck manufacturer Nissan Diesel, Volvo Trucks strengthened its position in the Chinese market. The acquisition of Nissan Diesel was seen as a possible way of buying into the largest truck manufacturer in China, Dongfeng, which was partly owned by Nissan Motors. During 2007, Jorma Halonen, the president of Volvo Trucks even talked about Dongfeng as a “fifth Volvo trucks’ brand”. However, later the same year the head of public relations for Volvo Trucks declared that the negotiations for acquiring Dongfeng had been terminated. Once again it was the automotive legislation from 2004 that was the reason for the decision since this only allows foreign companies to have two joint ventures for commercial vehicles in China. However, in 2008 yet another strategy for entering the Chinese market was presented. This time “a smaller and simpler truck, adapted to the Chinese market” would be developed. Once again, Volvo Trucks had decided to develop “the Chinese Volvo”. According to the newly appointed Volvo Trucks’ Asia president, this truck was to be issued within one to four years of time.*

*For CNHTC, the cooperation with Volvo Trucks became a springboard for international expansion and in 2006 the company was listed on the Hong Kong stock exchange. The great success of the Ho Wo truck was the final determinant for the listing.*

*Of the former Hua Wo executives all but one are still at Volvo. Only Benny Wen, the VP of the Volvo Trucks’ Greater China organization has left the company. However, none of the executives is still in the same position within Volvo. Gunnar Eriksson, former head of global manufacturing, now is head of a division of Powertrain. Carl Stiernström manages the newly established sales organization in China. Kent Svensson is located in Beijing and directs manufacturing in Asia and the former president for Asian sales, Jacob Wall, is now the coordinator for joint ventures in Asia at the Volvo Group Head Quarters in Gothenburg. Even Jon Andersson, the former president of Hua Wo, is still working for Volvo, despite his former decision to retire after the Hua Wo joint venture. Since he left the Hua Wo joint venture in the summer of 2007 he has established new factories both in Asia and Africa.*





PART VI. REFERENCES AND APPENDICES



## 12 References

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## Appendix I – Tables for Performance Studies

	Article	Study Focus	Measures
*	Geringer & Herbert (1991)	Measuring performance in joint ventures	Both objective and subjective measures. Test of the reliability and comparability of <b>survival measures</b> and <b>perceived performance</b> .
*	Bleeke & Ernst (1991)	How to maximize success in cross-border alliances	<b>Perceived performance</b> through goal achievement, and <b>financial measures</b> through recovered capital.
	Dowling and McGee (1994)	Strategies for success of new ventures	<b>Financial performance</b> through analysis of return on asset (ROA) and compounded average sales growth.
*	Yan & Gray (1994)	How bargain power and management control influence performance	<b>Perceived performance</b> through partner's assessment of strategic objectives achievement.
*	Dussauge & Garrette (1995)	Determinants of success in strategic alliances in the aerospace industry	<b>Perceived performance</b> through expert assessment of technical quality, technical performance and how products met operational requirement.
*	Lee & Beamsish (1995)	Characteristics of Korean joint ventures in LDCs	<b>Perceived performance</b> through manager's assessment of over all satisfaction of the joint venture. Over all satisfaction is measured through a seven-point scale which ranges from 1=not at all satisfied to 7= very satisfied.
	Park and Russo (1996)	Event study of joint venture failure	<b>Duration or age of joint venture.</b> Dissolution, or sale of joint venture to a third party, is defined as failure.
**	Makino & Delios (1996)	Knowledge transfer and influence on performance <i>Partly Chinese empirical setting</i>	<b>Perceived performance</b> through JV's Japanese top managers' assessment of financial performance.
	Reuer & Miller (1997)	Performance implications of joint venture internationalization	<b>Financial performance</b> through study of shareholder wealth effects of IJV internationalization
	Pearce (1997)	Joint venture performance and survival	Different measures are discussed but <b>definition in the article is missing</b>
*	Olk & Young (1997)	Performance and conditions of membership in R&D consortium	<b>Perceived performance</b> through analysis of members' initial expectations, overall evaluation and will to change operations.
	Luo (1997)	Partner selection related to joint venture success <i>Chinese empirical setting</i>	<b>Financial measures</b> through performance figures obtained from Jiangsu province statistics.
**	Lin & Germain (1998)	Conflict resolution strategy impact on satisfaction  <i>Chinese empirical setting</i>	<b>Perceived performance</b> of IJV managers consisting of satisfaction with: personal relationship with partner, financial situation and overall relationship. Both Foreign and Chinese managers.
**	Ariño & de la	Lessons learned from a joint	<b>Perceived performance</b> based on

	Torre (1998)	venture that failed.	interviews with the members of the joint venture's management team. The managers consider joint ventures a failure as result of lower efficiency compared to other forms.
	Makino & Beamish (1998)	How performance, survival and ownership structures are related <i>Partly Chinese empirical setting</i>	<b>Financial Performance.</b> Performance is calculated through financial measures. These results have been collected through a financial database compromising of the reported result of the joint ventures.
*	Pan & Chi (1999)	Financial performance and survival of MNC in China <i>Chinese empirical setting</i>	<b>Perceived performance</b> through data of financial performance collected through firstly through a database and secondly through interviews with the general manager of the joint venture.
	Reuer (2000)	Shareholder wealth effects of IJV formation	<b>Financial measures</b> through average shareholder wealth effects of IJV formations and IJV terminations. Event study methodology is used.
**	Isobe et al. (2000)	Whether technology leaders, and early movers, have superior performance in emerging markets <i>Chinese empirical setting</i>	<b>Perceived performance</b> of Chinese executives of joint ventures in China. Their perceived performance (through a profitability assessment survey) is compared with performance reported by Japanese managers.
	Reuer & Koza (2000)	Asymmetric information and joint venture performance	<b>Financial measures</b> through firm valuation effects of JV formation. Usage of event study methodology.
	Steensma & Lyles (2000)	How IJV survival is related to control, conflict, learning and managerial/technical support	<b>Survival measures</b> – success is defined as joint venture survival. Joint venture survival is correlated with different factors in order to decide factors that can explain survival or failure.
	Merchant & Schende (2000)	Conditions under with announcements of IJV formation lead to increase of shareholder value	<b>Financial measures</b> through event studies of abnormal returns.
**	Luo et al. (2001)	Control and performance of joint ventures in China <i>Chinese empirical setting</i>	<b>Perceived performance</b> through study of satisfaction (15 constructs) from surveys of IJV general managers (CEOs).
	Li et al.(2001)	If the culture of partners influence performance <i>Chinese empirical setting</i>	<b>Financial performance</b> through analysis of return on investment, sales per employee and asset growth. Information from Chinese database.
*	Fey & Beamish (2001)	How organizational climate similarities between partners and JV-organization influence performance	<b>Perceived performance</b> through partner and joint venture organization managers' assessment of overall performance.
*	Lane et al. (2001)	Learning and performance related to absorptive capacity	<b>Perceived performance</b> through study of parent and managers' and JV general managers' assessment of general performance and performance as business volume, market share, goal achievement and profits.
	Reuer (2001)	Shareholder wealth effects of JV partner buyout	<b>Financial measures</b> using event study methodology. Analysis of parent firm's stock price change as a result of JV buyout announcement.

	Luo (2002)	How contract, cooperation and performance are interrelated. <i>Chinese empirical setting</i>	<b>Financial measures</b> from Chinese governmental (MOFTEC) database. IJV performance is studied through analysis of sales level and ROI.
*	Pothukuchi (2002)	How organizational and national culture is related to IJV performance	<b>Perceived performance</b> through assessment of Indian partners' satisfaction with the foreign partner and with the management of the joint venture
**	Luo (2002)	How product relatedness affects joint venture performance <i>Chinese empirical setting</i>	<b>Perceived performance</b> through level of satisfaction with the joint venture (consisting of profitability sales competitive position and overall performance) as perceived by joint venture top managers.
**	Child (2002)	Configurational analysis of IJVs  <i>Chinese empirical setting</i>	<b>Perceived performance</b> through the assessment of joint venture managers, partner managers and intermediate managers. Joint venture performance is defined as the sum of 14 constructs.
	Benfratello & Sembenelli (2002)	If participation in EU sponsored research JVs has a positive impact on participating firms' performance	<b>Financial measures</b> through study of labor productivity and price cost margins of RJVs compared to other firms in the same industry and country.
*	Ariño (2003)	The validity of different performance measures	<b>Perceived performance</b> measured through overall performance satisfaction and strategic goal fulfillment
*	García-Canal et al. (2003)	Effectiveness of multi-party joint ventures	<b>Perceived performance</b> , effectiveness is defined as goal achievement of joint venture as it is perceived by primarily the CEO of Spanish joint ventures
*	Dhanaraj (2004)	Managing knowledge transfer and the impact of relational embeddedness on performance	<b>Perceived performance</b> from how Hungarian parent, foreign parent and IJV general manager evaluated overall performance.
**	Luo & Park (2004)	Multiparty cooperation and performance in joint ventures in China  <i>Chinese empirical setting</i>	<b>Perceived performance</b> from survey with top-level managers (general managers or deputy general managers) in JVs through assessment of satisfaction of overall performance, sales growth, market share, profitability, customer satisfaction and organizational reputation (and product image).
*	Choi & Beamish (2004)	Split management control and JV performance	<b>Perceived performance</b> through questionnaire mail survey of Korean general or deputy general managers' assessment of overall satisfaction.
*	Barden et al. (2005)	How distribution of parental control over international joint ventures influences the outcomes; such as parent conflict, survival and performance.	<b>Perceived performance.</b> The IJV manager is asked to evaluate how: 1) key managers in the Vietnamese parent would rate the IJV's performance, 2) key managers in the foreign partner would rate the IJV's performance and 3) the manager would rate the IJV's performance (1=poor and 5=excellent).

*	Ernst & Bamford (2005)	Harvard Business Review “Best Practice” article about how a joint venture can be re-structured in order to promote performance.	<b>Perceived performance</b> should according to the authors be evaluated through surveys with “those involved in the alliance” for example JV top management team and partner executives. Performance should be evaluated broadly from a: strategy, financial, operations and talents perspective.
**	Gong et al. (2005)	The aim with the article is to develop performance implications of HR processes; especially those occurring in the joint venture and those situated at the interface between the joint venture and the parents.  <i>Chinese empirical setting</i>	<b>Perceived performance</b> through analysis of parent’s satisfaction with the venture operation. IJV CEOs are asked to evaluate both foreign and local parents’ satisfaction on a five-point linkers scale (where 1=very low and 5=very high) of 1) sales level, 2) market share, 3) cost leadership, 4) management of venture, 5) technology development, 6) product design, 7) quality management, 8) labor productivity, 9) marketing, 10) distribution, 11) customer service, 12) reputation and 13) attainment of partner involvement.
*	Stensmaa et al. (2005)	How institutional and economical transformation alters the foreign partner role in joint ventures in Hungary; and how this is related to market performance.	<b>Perceived performance</b> through interviews with joint venture presidents or general managers. These respondents are asked to answer the questions of: how key managers in the Hungarian partner firm should evaluate the performance of the joint venture, how the key managers of the foreign partner firm should evaluate the performance and how they evaluate the performance themselves. In addition an aggregate measure of performance in seven activities (1-5 scale).

\* Key articles for dissertation

\*\* Key articles for dissertation with Chinese setting

### Focus on Joint Ventures as Rational or Natural System

<b>Organization Assumptions Articles</b>	<b>Goals <i>Focus on specific or complex goals</i></b>	<b>Structure <i>Formalization or informal structures emphasized</i></b>
Geringer and Herbert (1991)	Specific goal (JV as a tool in order to reach specific goals)	Focus on formal structures, informal structures are disregarded
Bleeke & Enst (1991)	Specific goal (internationalization)	Focus on formal structures, but empirical case study material acknowledges importance of informal structures
Yan & Gray (1994)	Complex goals: analyze goals as complex (changing over time and different between parent org.)	Focus on formal structures, partner relations in focus
Dussauge & Garrette (1995)	Specific goals (internalization)	Focus on formal structures
Lee & Beamish (1995)	Specific goals: which may be different between parent org.	Focus on formal structures e. g. ownership and control
Makino & Delios (1996)	Specific goals	Focus on formal structures
Olk & Young (1997)	Specific goal (focus is on why companies leave JVs)	Focus on formal structures, existence of informal structures acknowledged
Lin & Germain (1998)	Specific goals: that differences between parent companies may exist is acknowledged	Focus on formal structures
Ariño & de la Torre (1998)	Complex goals, goals are analyzed over time	Focus on formal structures
Pan & Chi (1999)	Specific goal (JV as entry mode)	Focus on formal structures, need for micro-level analysis acknowledged
Isobe et al. (2000)	Specific goals; that goals may be different between parent organizations is acknowledged	Focus on formal structures, correlation of variables
Luo et al. (2001)	Specific goals: differences between parent organizations acknowledged	Focus on formal structures, esp. control
Fey & Beamish (2001)	Goals are not discussed	Focus on formal structures, possibility of difference between JVO and parent organization is acknowledged
Lane et al. (2001)	Specific goal (learning)	Focus on formal structures, goals achievement is seen as prerequisite for survival
Pothukuchi et al. (2002)	Specific goals: differences between parent organizations are acknowledged but not problemized	Focus on formal structures
Luo (2002)	Specific goal (financial performance): importance of goal congruence emphasized	Focus on formal structures
Child (2002)	Article does not discuss JV goals (suggests that JV is driven as a subsidiary), but empirical case acknowledges complex goals	Focus on formal structures, but empirical case result suggests that informal structures are important
Ariño (2003)	Complex goals (difference between private and common, initial and emerging)	Focus on formal structures

García-Canal et al. (2003)	Specific goal (joint ventures as more economical than other forms of establishment)	Focus on formal structures (control vs. relationship development)
Dhanaraj et al. (2004)	Specific goal (JV as tool for learning)	Focus on formal structures
Luo & Park (2004)	Specific goal (“governance designed to mitigate the hazards in market and hierarchy” p143) mentioned but not discussed)	Focus on formal structures (especially coordination of parent org. activities)
Choi and Beamish (2004)	Specific goal (entry mode)	Focus on formal structures (especially control)
Barden et al. (2005)	Specific goal (internationalization)	Focus on formal structures (especially control)
Ernst & Bamford (2005)	Specific goals (different goals mentioned but not discussed)	Focus on formal structures but importance of informal processes is acknowledged
Gong et al. (2005)	Specific goal (global expansion)	Focus on formal structures
Stensmaa et al. (2005)	Specific goal (learning)	Focus on formal structures

### Focus on Joint Venture as Closed or Open Systems

<b>Organization</b> <i>Assumptions</i> <b>Articles</b>	<b>Environment</b> <i>External environment peripheral or emphasized</i>	<b>Members</b> <i>Individuals seen as interchangeable or influential</i>
Geringer and Herbert (1991)	Environmental influence not considered	No individual focus (individuals seen only as representatives for the JV organization)
Bleeke & Enst (1991)	Environment (and JVO) disregarded	No individual focus (one partner has one agenda)
Yan & Gray (1994)	Environmental influence acknowledged (but focus on relationship between parent organizations)	No direct individual focus. Individuals seen as representatives for partners or JV-organizations
Dussauge & Garrette (1995)	Environment considered only as “industry context and competitive context”, suppliers are considered only as potential parents	No individual focus (focus on parent organizations)
Lee & Beamish (1995)	Environment acknowledged only through conclusion that LDC and DC are different	No individual focus (“managers” from one parent organization in focus)
Makino & Delios (1996)	Environment is reduced to a parent organization attribute	No individual focus (managers only seen as representatives for JV organization)
Olk & Young (1997)	Environmental influence not considered	No individual focus (one individual in each organization representative for JV)
Lin & Germain (1998)	Environment only discussed as parent attribute (cultural similarity)	No individual focus (only consider managers as representatives for JV)
Ariño & de la Torre (1998)	Environment is not discussed	No individual focus
Pan & Chi (1999)	Environmental influence is discussed in terms of “daunting barriers” (p.362)	No individual focus (GMs seen as spokespersons for JV)
Isobe et al. (2000)	Environment influence discussed only as possible response bias	No individual focus (CEO and JV presidents seen as representatives for JV)
Luo et al. (2001)	Environment is discussed only as having	No individual focus (sample of



	influence on parent relations	CEOs represents joint ventures)
Fey & Beamish (2001)	Environment is only discussed as having a bearing on parent relations (org. similarity)	No individual focus (GM are seen as representatives for JV)
Lane et al. (2001)	Environment (and/or other stakeholder organizations) are ignored	No individual focus (GM and President are seen as representatives for JV)
Pothukuchi et al. (2002)	Environment only considered as parent attribute	No individual focus (in addition only domestic partner considered)
Luo (2002)	Environment only considered as having an influence on parent relations	No individual focus (IJV managers are seen as representatives for JV differences between parent org. acknowledged)
Child (2002)	Environment considered as having an impact on JV context: but focus is on relationship between parent organization and JVO	No individual focus but empirical results suggest that differences between JVO and parent organizations exist (managers from both JVO and parent organizations are interviewed)
Ariño (2003)	Environmental influence not considered	No individual focus (informants, one for each firm, represents JV)
García-Canal et al. (2003)	Environment only considered as parent organization variable (cultural distance)	No individual focus (JV CEOs speaks for JV )
Dhanaraj et al. (2004)	Environment and/or other stakeholders are not considered	No individual focus (JVGM speak for JVO)
Luo & Park (2004)	Environmental influence not considered (discussed only as context for investment): focus on relationship between parent organizations and JVO	No individual focus (Focus on differences between parent companies vis-à-vis joint venture org. Only one respondent, GM or DGM, from each JV constellation).
Choi and Beamish (2004)	Environmental influence reduced to possible bias “replication elsewhere would be required” p214:	No individual focus (only domestic GM or DGM are interviewed)
Barden et al. (2005)	Environmental influence is not considered (proposal for future research to consider cultural attributes of the parent org.)	No individual focus (only one respondent is interviewed in each case; difference between parent org. is acknowledged but not problemized)
Ernst & Bamford (2005)	Environmental influence and importance of other stakeholders not discussed (acknowledge suppliers only as potential partners for cooperation)	No individual focus but importance of individual action (of senior executives) acknowledged
Gong et al. (2005)	Environment seen as possible bias.	No individual focus (only JV CEOs are interviewed)
Stensmaa et al. (2005)	Environmental influence discussed as parent organization variable. The study concludes that “success of their joint venture depends in part on the broader institutional and economical environment of those ventures” p232	No individual focus (Presidents and/or GM as spokespersons)



## **Appendix II - Field Trips**

### **2003-2004**

#### **3 September 2003 to 6 September 2004<sup>86</sup>**

Volvo Group Area Asia Head Quarters, Beijing, China

#### **16-17 November 2003**

Jinan Hua Wo Truck Corporation, Jinan, China

#### **3-11 December 2003**

Volvo Truck India Head Quarters, Bangalore, India

Volvo Truck India East, Mumbai, India

#### **25-26 December 2003**

Jinan Hua Wo Truck Corporation, Jinan, China

#### **1-2 February 2004**

Jinan Hua Wo Truck Corporation, Jinan, China

#### **12-22 February 2004**

Volvo Truck Corporation Head Quarters, Göteborg, Sweden

#### **4-5 March 2004**

Jinan Hua Wo Truck Corporation, Jinan, China

#### **10-11 March 2004**

Jinan Hua Wo Truck Corporation, Jinan, China

#### **30 March - 1 April 2004**

Jinan Hua Wo Truck Corporation, Jinan, China

#### **12-25 April 2004**

Volvo Group Head Quarters, Göteborg, Sweden

Volvo Truck Corporation Head Quarters, Göteborg, Sweden

Volvo Powertrain Head Quarters, Göteborg, Sweden

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<sup>86</sup> One year stay at Volvo Group Area Asia Head Quarters with the exceptions of the visits to other locations listed below

**29 May - 6 June 2004**

Jinan Hua Wo Truck Corporation, Jinan, China

**2-3 September 2004**

Jinan Hua Wo Truck Corporation, Jinan, China

**2006**

**20-23 January 2006**

Volvo Truck Corporation Head Quarters, Göteborg, Sweden

Volvo 3P Head Quarters, Göteborg, Sweden

**16-17 February 2006**

Jinan Hua Wo Truck Corporation, Jinan, China

**21 February 2006**

Volvo Group Area Asia Head Quarters, Beijing, China

## **Appendix III – Project Meetings**

### **Joint Venture Research and Feedback Meetings**

#### **2003-13-02**

Introduction of field of research to “Jacob Wall” (President Volvo Truck Area Asia), discussion about possible case study (fictive name)  
Volvo Trucks Area Asia Head Quarter Beijing

#### **2003-03-09**

Introduction to Volvo Trucks by Jacob Wall  
Volvo Trucks Area Asia Head Quarter Beijing

#### **2003-08-09**

Management Meeting Volvo Trucks Greater China, introduction of research project  
Volvo Trucks Area Asia Head Quarter in Beijing

#### **2003-23-09**

Meeting with “Jon Andersson” (President Hua Wo) and discussion about research project (fictive name)  
Volvo Trucks Area Asia Head Quarter in Beijing

#### **2003-21-11**

Meeting with Jacob Wall and Jon Andersson about research focus  
Volvo Trucks Area Asia Head Quarter in Beijing

#### **2004-28-01**

Meeting with Jacob Wall about the agenda of the Third Joint Venture Executive Committee Meeting where research project is to be introduced  
Volvo Trucks Area Asia Head Quarter in Beijing

#### **2004-20-02**

Meeting with “Carl Stiernström” (Head of Volvo Truck International Division) establishing support for research focus (fictive name)  
Volvo Truck Head Quarters Göteborg (Sweden)

#### **2004-03-09**

Meeting with Jon Andersson, feed back from empirical study  
Jinan Hua Wo Truck Cooperation, Jinan

## **Meetings Concerning Legal and Contractual Issues**

### **2003-10-09**

Meeting about Hua Wo's Legal Situation with Jacob Wall (president Volvo Trucks Area Asia)

Volvo Trucks Area Asia Head Quarters Beijing

### **2003-10-09**

Meeting with Stanley Jia (partner Baker & McKenzie) and Jün Ma (Solicitor Baker & McKenzie), about the distribution agreement

World Trade Centre in Beijing

### **2003-16-09**

Meeting with Jacob Wall about differences between Joint Feasibility Study and Joint Venture Contract

Volvo Trucks Area Asia Head Quarter in Beijing

### **2003-17-09**

Meeting with Jacob Wall about the next step of the distribution procedure

Volvo Truck Area Asia Head Quarters in Beijing

### **2003-08-10**

Meeting with Stanley Jia (partner Baker & McKenzie), Edward Shum (partner Price Waterhouse Coopers) and Jonathan Jia (manager Price Waterhouse Coppers). Discussion about financial contribution to CNHTC

World Trade Center in Beijing

### **2003-30-10**

Meeting with Jon Andersson (General Manager Hua Wo) and Li Yanshou (Dep. General Manager Hua Wo) about homologation and production planning

Volvo Trucks Area Asia Head Quarters in Beijing

### **2003-31-10**

Meeting with Jacob Wall about trademark, distribution, product calculations issues

Volvo Trucks Area Asia Head Quarters in Beijing

### **2003-04-11**

Telephone Meeting with Jacob Wall and Jün Ma, Jennifer Wang (solicitor Baker & McKenzie), Chiang Ling Li (partner Baker & McKenzie) and Stanley Jia (partner Baker & McKenzie)

**2003-11-11**

Meeting with Jacob Wall  
Volvo Trucks Area Asia Head Quarters in Beijing

**2003-20-11**

Meeting with Jacob Wall about the financial situation of Hua Wo  
Volvo Trucks Area Asia Head Quarters in Beijing

**2003-03-12**

Meeting with Stanley Jia, Wang Shanpo (chief engineer CNHTC) and Jacob Wall  
and signing of trademark contract  
World Trade Centre Beijing

**2004-12-01**

Meeting with Jün Ma with follow up of the trademark license contract  
World Trade Center Beijing

**2004-02-02**

Meeting with Cai Dong (president Hua Wo) and Wang Shanpo (chief engineer CNHTC) about the board resolution  
Head Quarters of China National Heavy Truck Corporation Ltd. in Jinan

**2004-02-02**

Meeting with Jon Andersson about the board resolution  
Jinan Hua Wo Corporation in Jinan

**2004-03-02**

Discussion about Board Resolution with Jün Ma  
World Trade Center in Beijing

**2004-02-03**

Telephone meeting with Ole Johannesson (Controller Volvo Trucks Gothenburg)  
about the minutes from the second board meeting of Hua Wo

**2004-05-03**

Meeting with Jon Andersson about the board meeting minutes from the second  
board meeting of Hua Wo  
Jinan Hua Wo Corporation in Jinan

**2004-08-03**

Meeting with Jacob Wall about update of meeting minutes from the Second Board  
Meeting and the Extra Board Meeting  
Volvo Trucks Area Asia Head Quarters in Beijing

**2004-10-03**

Meeting with “Jon Andersson” and “Johan Sjöberg” (Controller Hua Wo) about the minutes from the Second Board Meeting and the Extra Board Meeting of Hua Wo (fictive names)

Jinan Hua Wo Corporation in Jinan

**2004-17-03**

Meeting about Board Meeting Minutes with Jacob Wall

Volvo Trucks Area Asia Head Quarters in Beijing

**Meetings Concerning Financial Issues**

**2003-18-09**

Meeting with Jacob Wall (President Volvo Trucks Area Asia) and Arthur Bai (Business Development Officer) about the development of product calculation model

Volvo Trucks Area Asia Head Quarters in Beijing

**2003-18-09**

Telephone meeting with Ole Johannesson (Financial Controller Volvo Trucks Göteborg) about Product Calculation Assignment

**2003-19-09**

Meeting with “Sebastiaan van Brantberg” (Financial Controller Volvo Truck Greater China) about Financial Forecast (fictive name)

Volvo Trucks Area Asia Head Quarters in Beijing

**2003-19-09**

Telephone meeting with Ole Johannesson about product calculation and transfer pricing

**2003-19-09**

Meeting with Arthur Bai about transfer pricing

Qinghua University Beijing

**2003-22-09**

Telephone meeting with Ole Johannesson about the financial situation of Hua Wo

**2003-25-09**

Telephone meeting with Ole Johannesson about financial control of Hua Wo

**2003-26-09**

Presentation of production calculations and recommendations report to Jacob Wall  
Volvo Trucks Area Asia Head Quarters in Beijing



**2003-10-10**

Presentation of updated product calculation assignment to Jacob Wall  
Volvo Trucks Area Asia Head Quarter in Beijing

**2003-10-10**

Meeting with Sebastiaan van Brantberg about transfer prices and costs  
Volvo Trucks Area Asia Head Quarters in Beijing

**2003-14-10**

Meeting with Peter Runhagen (Market Director for Volvo Truck Greater China),  
Ralf Lind (Product Manager Volvo Trucks Greater China) and Sebastiaan van  
Brantberg  
Volvo Trucks Area Asia Head Quarters in Beijing

**2003-17-10**

Telephone meeting with Ole Johannesson about product calculation model

**2003-31-10**

Meeting with Jacob Wall about CKD cost and price update  
Volvo Trucks Area Asia Head Quarters in Beijing

**2003-26-11**

Meeting with Ole Johannesson and Jacob Wall about product calculation  
Volvo Trucks Area Asia Head Quarters in Beijing

**2003-27-11**

Meeting with Ole Johannesson about Joint Venture Product Calculation  
Volvo Trucks Area Asia Head Quarters in Beijing

**2004-04-01**

Meeting with Ole Johannesson about new product calculations assignment  
Volvo Trucks Area Asia Head Quarters in Beijing

**2004-14-01**

Hua Wo budget meeting with Ole Johannesson and Jon Andersson (General  
Manager Hua Wo)  
Jinan Hua Wo Trucks Corporation in Jinan

**2004-19-01**

Meeting with Jacob Wall, Ole Johannesson and Sebastiaan van Brantberg about  
financial situation, and development, of Hua Wo operations  
Volvo Trucks Area Asia Head Quarters in Beijing

**2004-07-04**

Meeting with Jacob Wall about Volvo Truck Greater China's economical situation, summing up of the possibility to introduce new products into the Chinese market

Volvo Trucks Area Asia Head Quarters in Beijing

## Appendix IV – JV Executive Committee Meetings

<b>Joint Venture Executive Committee Meetings</b> <b>(Teleconference)</b>	<b>Date and Main Focus</b>
First Joint Venture Executive Committee Meeting Homologation of Products	2003-16-12
Second Joint Venture Executive Committee Meeting Introduction of MHD	2004-20-01
Third Joint Venture Executive Committee Meeting Establishment of the Engine Joint Venture	2004-19-02
Forth Joint Venture Executive Committee Meeting Inauguration of Hua Wo	2004-22-03
Fifth Joint Venture Executive Committee Meeting CNHTC Relations	2004-27-04
Sixth Joint Venture Executive Committee Meeting Status and Development of Chinese Purchasing	2004-02-06
Extra Joint Venture Executive Committee Meeting New Regulation on Vehicle Weight and Axle Load	2004-22-06
Seventh Joint Venture Executive Committee Meeting Status of Operations after New Regulations	2004-25-10

*Participants in the meetings*

			<b>Meetings</b>						
<b>Name</b>	<b>Organization</b>	<b>Title</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	<b>VI</b>	<b>Extra</b>
<b>*Brännberg, Björn</b>	Volvo Trucks International Division	Marketing Manager				p			
<b>“Andersson, Jon”</b>	Hua Wo	President	P	P	P	P		P	P
<b>*Hernandes, Eric</b>	3P China	Purchasing Director						P	
<b>“Wall, Jacob”</b>	Volvo Trucks Area Asia	President	P	P	P	P	P	P	P
<b>*Johannesson, Ole</b>	Volvo Trucks	Controller		P	P				
<b>“Eriksson, Gunnar”</b>	Volvo Trucks Global Manufacturing	President	P	P	P	P	P	P	P
<b>“Svensson, Kent”</b>	VTC International Manufacturing	President	P	P	P	P		P	P
<b>*“Kringström, Bo”</b>	3P	President Europe & Asia				P		P	
<b>“Sjöberg, Johan”</b>	Hua Wo	Controller			P	P	P	P	
<b>“Stiernström, Carl”</b>	Volvo Trucks International Division	President	P	P	P	P	P	P	P
<b>“Van Brantberg, Sebastiaan”</b>	Volvo Trucks Greater China	Controller	P	P	P	P		P	
<b>“Wen, Benny”</b>	Volvo Trucks Greater China	Vice President	P	p	p			P	P

P – Participating in the meeting

p – Participating in parts of the meeting

\* – Not permanent member of committee

“...” The name has been changed for anonymity reasons

### **Meeting Minutes Joint Venture Executive Committee**

Käfling, Åsa: *Minutes First Joint Venture Executive Committee Meeting*

Käfling, Åsa: *Minutes Second Joint Venture Executive Committee Meeting*

Käfling, Åsa: *Minutes Third Joint Venture Executive Committee Meeting*

Käfling, Åsa: *Minutes Forth Joint Venture Executive Committee Meeting*

Käfling, Åsa: *Minutes Fifth Joint Venture Executive Committee Meeting*

Käfling, Åsa: *Minutes Sixth Joint Venture Executive Committee Meeting*

Käfling, Åsa: *Minutes Extra Joint Venture Executive Committee Meeting*

Käfling, Åsa: *Minutes Seventh Joint Venture Executive Committee Meeting*



## Appendix V– Project Reports

### Product Calculations Project

Käfling, Åsa: *Project Presentation Product Calculation* 2003-09-26  
Käfling, Åsa: *New Project Presentation Product Calculation* 2003-10-09  
Käfling, Åsa: *Extended Project Presentation Product Calculation* 2003-10-30  
Käfling, Åsa: *Final Version Project Presentation Product Calculation* 2003-11-04  
Käfling, Åsa: *Minutes from Product Calculation Meeting* 2004-01-18  
Johannesson, Ole and Åsa Käfling: *Summary of Product Calculations 2004-2005, Volvo Truck* 2004-01-19

### CRM Project

Käfling, Åsa: *Customer Relations Management - What's Hot and What's Not* 2003-10-16  
Käfling, Åsa: *Summary CRM India* 2003-12-31

### Joint Venture Research Project

Käfling, Åsa: *Research Plan* 2003-21-09  
Käfling, Åsa: *Joint Venture Project Charter* 2004-28-01  
Käfling, Åsa: *New Version of Joint Venture Project Charter* 2004-04-07  
Käfling, Åsa: *Joint Venture Project Summary and Findings Report* 2004-25-08

### Legal Project

Käfling, Åsa: *Status for Distribution Agreement Application and Trademark License Application* 2003-11-12  
Käfling, Åsa and Shanpo Wang: *Minutes of 2nd Board Meeting Jinan Hua Wo Truck Corporation / 济南华沃卡车有限公司第二次董事会纪要* 2004-22-03  
Käfling, Åsa: *Minutes of Extra Board Meeting Jinan Hua Wo Truck Corporation / 济南华沃卡车有限公司董事会纪要* 2004-23-03  
Käfling, Åsa: *Introduction of New Products to the PRC Market* 2004-05-04  
Käfling, Åsa: *Summary of and Comments to the Chinese Automotive Industry Policy issued 2 of June 2004* 2004-14-06  
Käfling, Åsa: *Volvo China's Situation as a Result of the New Regulations on Vehicle Weight and Axle Load* 2004-22-06

### Powertrain Project

Käfling, Åsa: *China Powertrain Report* 2004-14-06  
Käfling, Åsa: *China Automotive Market Report* 2004-17-06





## Appendix VI– Interviews

### Interviews conducted between 2003 and 2004

#### Volvo Group Executives

1. Leif Johansson	President	2004-31-03*
2. “Bo Kringström”	President 3P Europe and Asia	2004-31-03*
3. Per Löjdqvist	Vice President	2004-31-03*
4. Jorma Halonen	President Volvo Truck Corporation	2004-01-04*
5. Sten-Åke Aronsson	President Mack	2004-02-04*
6. Karl-Erling Trogen	Vice President	2004-19-04
7. Lars Göran Moberg	President Powertrain	2004-22-04

#### Volvo Truck Corporation

8. Claes Claesson	Manager of Media Relations	2003-28-11*
9. Ole Johannesson	Manager Special Projects	2004-13-01*
10. Jan Svensson	Senior Corporate Counsel	2004-16-02
11. Tommy Kohle	Head of Corp. Communications	2004-17-02
12. Håkan Jäger	Manager Supplier Warranty	2004-18-02
13. Lars Lidman	Head of Legal Affairs	2004-20-02
14. Ricard Fritz	Head of Strategy	2004-22-04

#### Volvo Truck Global Manufacturing

15. “Kent Svensson”	Director of International Manufacturing	2004-18-02
16. “Gunnar Eriksson”	Head of Global Manufacturing	2004-19-02

#### Volvo Truck International Division

17. “Carl Stiernström”	President	2004-20-02
18. Christina Christenson	Head of Financial Control	2004-20-04
19. Agneta Elvin	Head of Human Resources	2004-21-04
20. Lars Barkhed	Head of After Sales	2004-22-04

### Volvo Truck Area Asia

21. “Jacob Wall”	President	2003-13-02
22. Stuart Lennie	Information Technology Manager	2004-15-03
23. Heimo Parkkinen	After Sales Director	2004-19-03
24. Björn Brännberg	Marketing Manager	2004-20-04
25. Kenneth Hagås	Manager Business Intelligence	2004-17-05
26. Charlotte Olofsson	Director Business Control	2004-31-08*

### VCIC

27. Jan Van Setten	Managing Director	2003-23-09
28. Michael Gigou	President	2004-30-03*
29. Jan Van Setten	Managing Director	2004-10-05

### Volvo Truck Greater China

30. Ralf Lind	Product Engineering	2003-25-09*
31. Jeffrey Zhao	Market Intelligence	2003-25-09*
32. Peter Zhu	Service Manager	2003-19-11
33. Sean Cheng	Service Engineer	2003-19-11
34. Carlson Yang	Parts Specialist	2003-24-11
35. Jane Lu	Market Intelligence	2003-24-11
36. Max Pan	Market Development Manager (South)	2003-02-12
37. Baoli He	Regional GM	2003-02-12
38. Patrick He	Market Development Manager (West)	2003-03-12
39. Peter Runhagen	Market Director	2004-16-02
40. “Seb van Brantberg”	Financial Controller	2004-15-03
41. Mats Ahlin	After Market Director	2004-18-03
42. “Benny Wen”	Vice President	2004-25-03*
43. Baoli He	Regional GM	2004-07-04

### Volvo Truck India

44. Ulf Nordqvist	Managing Director	2003-05-12
45. Mansoor Ahmed	Head Sales & Marketing	2003-05-12
46. Sohanjeet Randhawa	Senior Manager Communications	2003-05-12
47. Somnath Bhattacharjee	Regional Manager East	2003-08-12
48. Ashok Kumar	National Service Manager – After Market	2003-08-12
49. G.V. Rao	Manager Product Marketing	2003-08-12
50. Rama Rao	Regional Service Manager South	2003-08-12

51. Sanjay Verma	Manager After Market	2003-08-12
52. Cyrus Dhabhar	Manager Central Sales	2003-08-12
53. Berndt Jakobsson	Manager After Market	2003-09-12
54. Dinesh Kumar Jain	Regional Manager West	2003-10-12

### Other Volvo Organizations

55. Ulf Norman	Head of NAP Purchasing	2004-20-04
56. Morgan Persson	Volvo Logistics Manager	2004-24-08
57. Tony Liu	Manager China Project (Powertrain)	2004-27-08
58. Eric Hernandez	Manager China Purchasing (3P)	2004-01-09

### Hua Wo

59. “Jon Andersson”	General Manager	2003-17-11
60. “Johan Sjöberg”	Finance Manager	2004-01-06
61. Dongwei Yuan	Logistics Manager	2004-02-06
62. Zhenhua Gao	Chairman of the Union	2004-02-06*
63. Molly Chen	Customs Manager	2004-02-06
64. Yanshuo Li	Dept. General Manager	2004-03-06
65. “Jon Andersson”	General Manager	2004-04-06
66. Kejun Chen	Quality Assurance	2004-02-09
67. Maria Shen	Executive Assistant	2004-02-09
68. Emily Liu	HRM Manager	2004-02-09
69. “Jon Andersson”	General Manager	2004-03-09
70. Terje Kristiansson	Assemble Instructor	2004-03-09

### CNHTC

71. Dong Cai	GM CNHTC, Chairman Hua Wo	2004-02-02*
72. Shanpo Wang	Chief Engineer CNHTC	2004-02-02*

### Other Stakeholders

73. Jün Ma	Associate Baker & McKenzie Law Firm	2003-04-11
74. Vinay Kwatra	Counsellor Embassy of India	2004-21-01
75. Stanley Jia	Partner Baker & McKenzie Law Firm	2004-22-03
76. Pär Ahlberger	Minister E. Affairs Embassy of Sweden	2004-19-05
77. Helena Bjärneby	Consultant Swedish Trade Council	2004-17-07

### Follow up interviews conducted in 2006

#### Gothenburg

- |    |                    |  |            |
|----|--------------------|--|------------|
| 1. | “Kent Svensson”    | Head of International Manufacturing      | 2006-20-01 |
| 2. | “Gunnar Eriksson”  | Head of Global Manufacturing             | 2006-23-01 |
| 3. | “Carl Stiernström” | President Volvo Truck International Div. | 2006-23-01 |

#### Jinan

- |    |                 |                        |            |
|----|-----------------|------------------------|------------|
| 4. | “Jon Andersson” | General Manager Hua Wo | 2006-16-02 |
| 5. | “Johan Sjöberg” | Finance Manager        | 2006-16-02 |

#### Beijing

- |    |              |                                  |            |
|----|--------------|----------------------------------|------------|
| 6. | “Jacob Wall” | President Volvo Trucks Area Asia | 2006-21-02 |
| 7. | Bo Zhu       | Vehicle Sales Manager Area Asia  | 2006-25-02 |

“...” fictive names

\* Informal interview and/or personal communication

## Appendix VII – Example of Interview Guide

### Interview with Eric Hernandez 1 September 2004

<p><b>Introduction</b></p> <p>Presentation</p> <ul style="list-style-type: none"> <li>❑ My Research</li> <li>❑ Focus: understanding of the joint venture process</li> </ul>	<p><b>Background</b></p> <ul style="list-style-type: none"> <li>❑ Your role in the organization, in 3P</li> <li>❑ Explain the relationship between 3P, Volvo Powertrain, VTC, CNHTC and the other joint ventures</li> </ul>
<p><b>Joint Venture Cooperation</b></p> <p>Explain the background to 3P</p> <ul style="list-style-type: none"> <li>❑ Motive(s)</li> <li>❑ Long term goals and short time objectives</li> <li>❑ Strategies and methods</li> </ul>	<p><b>Experience</b></p> <p>Tell about:</p> <ul style="list-style-type: none"> <li>❑ Experiences drawn from working together with Hua Wo</li> <li>❑ Experiences drawn from working together with CNHTC</li> <li>❑ What worked according to the plan</li> <li>❑ Unforeseen difficulties</li> </ul>
<p><b>Negotiating and Legal Issues</b></p> <p>Time frame</p> <ul style="list-style-type: none"> <li>❑ Chinese Business negotiating style</li> <li>❑ Legal framework</li> <li>❑ IPR situation</li> <li>❑ Automotive Policy</li> <li>❑ Co-operation/ Competition</li> </ul>	<p><b>Conclusion</b></p> <p>Your thoughts for the future:</p> <ul style="list-style-type: none"> <li>❑ Strategies for Volvo AB and 3P</li> <li>❑ Vision</li> <li>❑ Plan</li> <li>❑ Future for the automotive industry</li> </ul> <p><i>Thank you!</i></p>



## Appendix VIII – Definitions

Performance is in this dissertation defined as “*perceived performance*”; and perceived performance is defined as “*achievement of strategic goals of the joint venture*” and “*over all satisfaction with the joint venture*”.

*Motive* is in this dissertation defined as the “*general purpose with the joint venture establishment*”. *Goal* is defined as the “*explicit aims with the joint venture*”, which describe ideal future states of being. *Objective* is used synonymously with goal.

In identifying the joint venture *stakeholders* the classical Freeman (1983) definition is used where a stakeholder is defined as “*any group or individual who can affect or is affected by the achievement of the organization’s objectives*” (Freeman 1984; p46).

*Internal/Commercial Joint Venture Stakeholders* are:

- The owner companies of the joint venture are called the Joint Venture Partners in the dissertation. Joint Venture Partner Companies and Joint Venture Parent Companies are used synonymously.
- The Joint Venture Management, also called the General Management, is the management team of the joint venture which is appointed by the joint venture partners and the joint venture president
- Suppliers, distributors and customers are defined as commercial/internal joint venture stakeholders in the dissertation, together with joint venture partners and joint venture management

*Political Influence* is defined as “*control exercised by public stakeholders*”. *Public/External stakeholders* are defined as “*groups or individuals who can affect or is affected by the achievement of the organization’s objectives which are not connected to the joint venture partners*”.

In line with Geringer and Herbert (1989), *Control* is defined as “*the process by which a stakeholder, to a varying degree influences the behavior and output of another stakeholder, through the use of power, authority and a wide range of bureaucratic, cultural and information mechanisms*”.





## Appendix IX – Dissertation Dictionary

<b>(VTC) Global Manufacturing</b>	Volvo Trucks’ production organization also called “the Industrial Side”
<b>(VTC) International Division</b>	Volvo Trucks’ sale organization also called “the Commercial Side”
<b>Automotive (or Automobile) Policy (1994)</b>	Abbreviation of “Automobile Industry Development Policy decree of the State Development and Planning Commission of the People’s Republic of China” which was issued in 1994. Legislation concerning the automotive industry in China.
<b>Automotive (or Automobile) Policy (2004)</b>	Abbreviation of “Automobile Industry Development Policy No. 8 decree of the State Development and Reform Commission of the People’s Republic of China” which was issued in 2004 and substitutes the Automobile Policy of 1994. Legislation concerning the automotive industry in China.
<b>Baker &amp; McKenzie</b>	The lawyer firm used by Volvo Trucks’ in China
<b>Beijing office</b>	The Volvo Trucks’ Greater China organization, which is located in Beijing, is often referred to as the “Beijing office” by the Hua Wo management and staff
<b>Cab</b>	Truck’s drivers cab
<b>CBU</b>	Completely Built Up (whole truck)
<b>China National</b>	Abbreviation of “China National Heavy Duty Truck Group Co. Ltd.” An abbreviation used mostly by the industrial side of VTC.
<b>CKD</b>	Completely Knocked Down (truck kit)
<b>CNHTC</b>	China National Heavy Duty Truck Group Co. Ltd. Third largest manufacturer of heavy duty trucks in China and one of the largest commercial vehicles’ manufacturing groups.
<b>Commercial side</b>	The sales organization of VTC, in the case study the organization known as VTC International Division
<b>Curitiba</b>	City with production of Volvo trucks, busses and engines in South America
<b>Distribution Contract</b>	Contract that regulates the rights and responsibilities of VCIC, in regards to distribution of the Hua Wo products.
<b>Dongfeng (Motors Corporation)</b>	One of the largest commercial vehicle manufacturers in China, formerly known by the name SAW (Second Automotive Works). Second largest heavy duty truck manufacturer in China.

<b>(东风汽车公司)</b>	
<b>FAW</b> <b>(中国第一汽车)</b>	First Automotive Works; China's first automobile manufacturer and the largest automotive group in China. Largest manufacturer of Heavy duty trucks in China.
<b>FH (-truck)</b>	Volvo truck brand (high cab truck)
<b>Fixed Return</b>	A pre determined profit of the joint venture company
<b>FL (-truck)</b>	Volvo truck brand (low cab truck)
<b>FL-Steyr (-truck)</b>	Co-project of Volvo and CNHTC during the joint venture negotiations, the predecessor of the Ho Wo truck of CNHTC
<b>FM(-truck)</b>	Volvo truck brand (medium cab truck)
<b>Göteborg</b>	Second largest city of Sweden where Volvo Group has its headquarters
<b>HD (-truck)</b>	Heavy Duty truck (in China classified as over 14 ton)
<b>Ho Wo</b>	The truck CNHTC developed from the truck dies from VTC
<b>Homologation</b>	In the Hua Wo case homologation means getting a certificate in order to be able to produce trucks
<b>Hua Wo</b>	The truck joint venture between VTC and CNHTC
<b>Hua Wo Board of Directors</b>	The highest authority of the joint venture company
<b>Inauguration</b>	In this case the installation festivities of the Hua Wo factory
<b>Industrial side</b>	The production organization of VTC called VTC Global Manufacturing
<b>Jinan (济南)</b>	The sub-provincial city with a population of approximately six million people where the Hua Wo joint venture is located. Jinan is located in the north-western part of the Shandong Province.
<b>Joint Venture Contract</b>	Abbreviation of "Joint Venture Contract between China National Heavy Duty Truck Group Corporation and Volvo (China) Investment Co. Ltd. and Volvo Truck Corporation for the Establishment of Jinan Hua Wo Truck Corporation" 9 of June 20003
<b>Joint Venture Feasibility Study</b>	Abbreviation of "Feasibility Study Report of Jinan CNHTC/Volvo Truck Co., Ltd Established as an Chinese Swedish Equity Joint Venture"
<b>LDC</b>	Abbreviation for "Less Developed Country"
<b>MD (-truck)</b>	Medium Duty truck (in China classified as over 6 ton)
<b>MHD (-truck)</b>	Medium Heavy Duty truck
<b>Mixer</b>	Concrete mixer truck often used together with pump trucks
<b>MNC</b>	Abbreviation for "Multinational Corporation"
<b>MOFCOM</b>	Ministry of Commerce (former MOFTEC)
<b>MOFTEC</b>	Ministry of Foreign Trade and Economic Cooperation (now MOFCOM)
<b>MoU</b>	Memorandum of Understanding

<b>NDRC</b>	National Development and Reform Commission
<b>New Regulations on Vehicle Weight and Axle Load</b>	Officially the “National Standards GB 1589-2004” which regulates the vehicle weight and axle load of commercial vehicles in China
<b>Nissan Diesel</b>	A leading manufacturer of commercial vehicles (trucks and busses) that Volvo Group acquired in 2007, which became a ninth Business Area of Volvo Group
<b>P8 (P1-P12)</b>	August (January to December)
<b>PNL</b>	Abbreviation of “Profit and loss statement”
<b>PRC</b>	People’s Republic of China
<b>Pump</b>	Truck that is used to supply mixers with concrete
<b>Renault</b>	One of the world’s largest automotive groups as well as a large stakeholder (20.47% in 2007) of Volvo Group
<b>Renault Trucks</b>	A business area owned by Volvo Group
<b>SAW</b>	Second Automotive Works now renamed Dongfeng
<b>SDPC</b>	State Development and Planning Commission (now SDRC)
<b>SDRC</b>	State Development and Reform Commission (former SDPC) – commission under the State Council
<b>Shandong (山东)</b>	The costal province of eastern China where Jinan city and the Hua Wo joint venture is located.
<b>Shandong Provincial Government</b>	Abbreviation for “Shandong Provincial People’s Government” which consists of 42 agencies. Shandong Provincial People’s Government is the owner of CNHTC.
<b>Skövde</b>	City in western Sweden where the main engine plant of Volvo Powertrain is located
<b>Technology License Contract</b>	The contract signed between VTC and Hua Wo, where VTC licenses the right to use certain technology and know-how, to the joint venture, in connection with the assembly and production of the JV Products.
<b>The Volvo Way</b>	A document that summarizes the Volvo values
<b>Tipper</b>	A tipper lorry truck
<b>Tractor</b>	A tow truck
<b>Trademark License Contract (Agreement)</b>	The contract signed between Volvo Trademark Holding AB and Hua Wo in which the holding company licenses to Hua Wo the right to use the trademark “Volvo” in connection with the production of the trucks of the joint venture
<b>VCIC</b>	Abbreviation of “Volvo (China) Investment Corporation”
<b>Volvo 3P</b>	The Volvo Group business unit responsible for product planning, product development and purchasing
<b>Volvo Business Area</b>	Different brands of the Volvo Group namely Mack/North America, Renault Trucks, Volvo Trucks, Volvo Construction Equipment (CE), Volvo Penta, Volvo Aero and Financial

	Services (in 2004). In 2007 Volvo Group bought Nissan Diesel which was added to the other Business Areas.
<b>Volvo Business Unit</b>	Support functions of the different Volvo Group Areas namely 3P, Powertrain, Parts, Logistics and Information Technology (in 2004)
<b>Volvo Holding</b>	Company jointly owned by Volvo Group and Ford Motor Company which regulates issues concerning the Volvo brand name
<b>Volvo Powertrain</b>	The Volvo Group business unit responsible for engines, gearboxes and driveshafts. Volvo Powertrain is the world's largest producer of heavy diesel engines (in the 9-18 liter classes).
<b>VTC</b>	Abbreviation of "Volvo Trucks Corporation" (sometimes spelled Volvo Truck Corporation)
<b>VTC AA or VTC Area Asia</b>	Abbreviation of "Volvo Trucks Area Asia" which is Volvo Trucks' sales organization in Asia
<b>VTGC</b>	Abbreviation of "Volvo Trucks Greater China" which is Volvo Trucks' sales organization in China

