

**The differential impact of institutional environments on long-term goal setting and learning
in an international joint venture and its Chinese state-owned parent company**

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The candidate confirms that the work submitted is his own and that appropriate credit has been given where reference has been made to the work of others.

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Table of content

Abstract.....	7
Chapter 1: Introduction.....	8
Chapter 2: Literature Review	16
2.1 Literature of international joint venture performance goals.....	16
2.1.1 Parent firms' overall satisfaction and achievements of goals	18
2.1.2 Financial performance.....	25
2.1.3 Learning - literature on knowledge and technology transfer	27
2.1.4 The survival of joint ventures.....	35
2.2 IJVs performance determinants.....	36
2.2.1 Commitment and Bargaining Power.....	37
2.2.2 Control of international joint ventures.....	40
2.2.3 Conflict, resolution mechanisms and organisational justice.....	42
2.2.4 Trust and Cultural Distance	44
2.2.5 Cooperation and Goal Congruity.....	45
2.3 Institutional theory and state owned enterprise.....	46
2.3.1 Chinese SOE managers and corruption.....	59
2.4 Challenging the positivism of the reviewed joint venture literature	60
2.5 The application of structural social anthropology in this thesis.....	62
2.5.1 Solidarity and the sacred–profane dichotomy.....	65
2.5.2 Sacrifice and ancestor worshipping	66
2.5.3 Kinship and tribalism	67
2.6 Chapter Summary	70
Chapter 3: Research design and Methodology	72
3.1 Qualitative research in international business research.....	72
3.2 Research design and data collection.....	75
3.3 Data collection and observations.....	81
3.4 Language	85
3.5 Data Presentation and Analysis.....	86
Chapter 4: Origin myth: the sacred and profane dichotomy of Hongqi 1956-2005	91
4.1 Chapter Objectives.....	91
4.2 The sacred and profane dichotomy of Hongqi and FAW from 1956 to 1984.....	91
4.2.1 The consecration of Hongqi	92
4.2.2 The weakened sacred and profane dichotomy of Hongqi in 1980s	97

4.3 Establish joint ventures.....	99
4.4 The rebuilding of FAW and Hongqi in the joint venture era from 1985 to 1995.....	104
4.5 Hongqi in the joint venture era 1995 - 2005.....	111
4.6 Chapter Summary	112
Chapter 5: The ecological system of FAW-VW: goals, solidarity and tribes	113
5.1 Chapter objectives	113
5.2 Background settings of the studied joint ventures	113
5.3 Solidarity, tribalism and joint ventures performance goals.....	116
5.3.1 Solidarity and Financial performance.....	116
5.3.2 Solidarity, tribalism and joint venture learning.....	124
5.3.3 Joint venture survival.....	129
5.4 Tribes in FAW-VW: engineer and staff member perspectives on joint venture management	133
5.5 Tribalism: engineer and staff member perspectives on VW as parent company.....	135
5.5.1 Insider or outsider? joint venture engineer and staff member perspectives on VW assigned managers.....	135
5.5.2 Joint venture engineer and staff member perspectives on VW as parent company.....	138
5.6 Joint venture engineer and staff member perspectives on FAW and indigenous parent learning.....	140
5.7 FAW-VW tribal divisions and connections to FAW.....	144
5.8 Chapter Summary	146
Chapter 6: The ecological system of FAW: the revived sacred and profane dichotomy, sacrifice and tribal corruption.....	148
6.1 Chapter objectives	148
6.2 Hongqi model development 2005 - 2015	149
6.3 FAW technology development	154
6.4 Summary of FAW performance goals.....	162
6.5 The ecological system of FAW: tribal corruptions and sacrifice	165
6.6 Chapter Summary.....	173
Chapter 7: Conclusion	176
7.1 Research Findings	176
7.2 The sacred and profane dichotomy of Hongqi and FAW 1956-1985	176
7.3 Tribalism in FAW-VW.....	178
7.4 Ecological system of FAW.....	181
7.5 The sacred and profane dichotomy, solidarity and tribalism	182
7.6 The ecological system: corruption and sacrifice	184

Bibliographies.....187

Appendix The IJVs networks of major Chinese SOEs.....227

Abstract

Through structural social anthropology lens, this thesis explored issues of international joint venture performance measurements and parent company learning through international joint ventures in the context of the Chinese automotive industry. It was a case study of the First Automotive Work FAW, a Chinese state-owned car manufacturing group and its joint venture with German car manufacturing group Volkswagen. Its focus was on the Chinese engineers working in both companies, who are on the frontier of technology transfer and knowledge learning through their work experience of localizing imported technologies. The methodology used was qualitative, primarily interviews, historical and technological background research, participant observation and the researcher's lived experience of the encounters.

The research argues and demonstrates that complexity matters on IJV performance measurements and organizational learning studies; and calls for closer attention to individuals through structural social anthropology theories. It describes in detail the indigenous engineers and managers' perspective of the learning experience, learning outcomes, the purposes of learning and its relationship to parent companies as independent tribes.

It affirms, contends and extends current concepts of IJV performance measurements and indigenous partner learning through IJV. It presents the complexity of how the IJV and its SOE parent company values knowledge and means of learning differently and how it relates to the ecological system of SOE and its IJV. It explores the independent tribalism in FAW-VW and the sacred and profane dichotomy of FAW that had led to the ecological structure of FAW.

The thesis presents the structural social anthropology theories of the solidarity, sacred and profane dichotomy and tribalism as solution to some of the issues in current international business literature. It argues that the different ecological system lead to different interpretations of goals at the SOE and IJV. A human model that is useful for a deeper understanding of IJV performance measurements and indigenous parent learning through the social anthropological lens. It also analyzes the complexity of historical and hidden factors such as SOE corruption that contributes to such phenomenon.

The differential impact of institutional environments on long-term goal setting and learning in an international joint venture and its Chinese state-owned parent company

Chapter 1: Introduction

This thesis is a study of international joint ventures and state owned parent company in China, and of one joint venture and its SOE parent company in particular. As such, it takes place within the general context of international business studies, which is a well-recognised academic domain. The thesis draws upon this literature, and hopes to contribute to it. There are, however, some aspects of the predominant research paradigm in international business studies which this thesis puts to question. This is done within a carefully circumscribed and detailed empirical context.

Within international business academia, the dominant paradigm of study is that of positivist science. In this paradigm, and put very simply, the scientist is an observer, who is outside the system or phenomena under observation. The scientist reads the scientific literature on the subject, and finds a gap in the literature. The gap in the literature can be a theory that is incomplete, and whose completion can be attempted through the use of existing empirical data. Or the gap in the literature can be a new empirical domain to which existing theory can be applied. Here are three characteristics of this paradigm, which have relevance for how this thesis has been researched, how it should be read, and what lessons might be drawn from it:

- 1) Within this paradigm, the external objective researcher defines the concepts and questions through which research is conducted. Scientific observer and reality are separate from one another - the first, to ask questions, the second, to be interrogated.
- 2) Within this paradigm, the scientific observer is there as such, defined by the pre-existing science and by nothing else. There is no need for the scientific observer to have a life, a culture, or a language.
- 3) Within this paradigm, the goal of theory, and of empirical investigation, is to create a science which is predictive. A predictive science can tell a company what to do and what not to do, how to achieve success and how to avoid failure.

We can look carefully at each of these three characteristics, with a view to putting them to question.

Who defines the concepts and questions through which research is conducted?

Within positivist science as it concerns the natural world, this is often not an issue. Of course the natural world offers all kinds of natural variety (chemical, biological, geological, and so on), which

the scientists can study (and potentially argue about), but at least the natural world does not usually answer back. If the scientist says to a crystal, 'you are sodium chloride', the crystal does not reply. Within the human domain, however, there is always and essentially the problem that the object of study will have its own opinions, often vociferously expressed. If we could reduce all of human activity to the state of 'etic equivalence' which some theorists seem to think is possible, then this would not matter (Buckley, Clegg, Gajewska-de Mattos and Chapman, 2008). If we cannot, however, then the scientist has a problem.

Of the social sciences, the one that has most consistently tried to understand differences between cultures, has been social anthropology. Social anthropologists, in the late 19th and for the first few decades of the 20th century, were content to try to study 'other cultures' with the assumption that they could bring categories of analysis from their own culture, and apply them without problem to these 'other cultures'. The slow and very well documented collapse of this confidence, has since been generally regarded as the period when social anthropology came of age in its modern form.

Behind the dominant research paradigm of international business studies, stands the subject of economics, where the same paradigm applies, *a fortiori*. An international business researcher with a background in economics, and a social anthropologist interested in international business, have looked at the paradigmatic meeting of economics and social anthropology, in the light of these conceptual issues (Buckley and Chapman, 1996a). Their work provides a summary of the problem, and some examples of conceptual areas where these issues have been fought. Buckley and Chapman observe that one of the most prominent conceptual areas was that of kinship - the study of how people are related to one another, understand their relationship to kin (blood relatives) and affines (relatives by form or ceremony), and understand their relationship to preceding and succeeding generations. Social anthropologists found that when they tried to apply their own categories of understanding to other cultures, they found and generated confusion and contradiction. When, by contrast, they summoned the empirical and conceptual finesse to look at the issues from within the categories of understanding of the other cultures, this confusion and contradiction disappeared. The kinship example is one among many, all of which have complicated and detailed histories, to which several generations of highly skilled and thoughtful scholars have applied their attentions.

It is, therefore, very well established in certain quarters of the social sciences, that allowing a defining voice to those who are being researched, is often of great value. This is in blunt contradiction to the scientific positivist approach, which requires that research questions be established from the existing literature, and formulated before any approach to the empirical data.

The reality of all social research experience is a mixture of these two approaches. This derives, in a fairly simple way, from the fact that *all* social research contains the potential meeting of two world views, that of the researcher and that of the researched. Recognition that there is an issue here, however, is in itself an important advance. It is an advance both within a domain of social

scientific academia, and an advance within the life of any active researcher. It is an advance which needs to be tried out, made, experienced, challenged, rolled back, and tried again. Different academic domains experience the problems at different times. Social anthropology was, according to Ardener, almost by accident the academic subject which pioneered thinking about these matters, in the 1960s (Ardener, E. 1989, Clifford and Marcus, 1986). Since then, both social psychology (Triandis et al., 1988) and organisation studies (Smircich, 1983) have grappled with the problem. International business studies has been affected by these issues only at the margins, and this thesis hopes to add empirical weight to the discussion like these existing examples, Antoniou, C. PhD; Gajewska-de Mattos, PhD; Charleston, B. PhD and Fowler, R. PhD. Discussion is ongoing, and, given the essentially human nature of the problem, will probably continue indefinitely.

In this thesis, we have taken the approach that our object of study is best approached with conceptual neutrality, and allowed to express its own understanding. The research was carried out with an awareness of the relevant literature, and indeed with an awareness of what questions it might be interesting to ask.

Who and what is the researcher, and does it matter?

Within the positivist scientific research paradigm, the character and identity of the researcher does not matter. The research is objective, and all competent researchers will observe and record the same thing. Research is replicable. If a new and completely different researcher does the same research, using the same techniques on the same material, the same result will ensue.

In social scientific research, and perhaps particularly in qualitative work, the character and identity of the researcher is often important. This thesis relies upon a discussion of these issues by Chapman, Gajewska-de Mattos and Antoniou in 2004. They discuss age, nationality, gender and language fluency, as issues which affect how and why research locations, research areas, and research methods, are often chosen. 'Moreover, the text creates the subtle impression of more coherence than our experiences and actions warrant. In this regard, the telling has much in common with the literary fictions found in the methods sections of most research papers' (Meyer et al, 1992)

In this thesis we have tried to make good use of the identity, characteristics and knowledge of the researcher. It is strange that this should seem in any way strange. However, we have referred to the strength of the positivist scientific paradigm in business studies. We have noted that, within this paradigm, the researcher should be an entirely neutral element. Within this paradigm, if the researcher brings existing knowledge, and ethnic and linguistic characteristics, these might be regarded as disadvantageous - liable to lead to bias, at the least. It is no exaggeration to say that, within this paradigm, pre-existing knowledge of the characteristics of what is being studied, might even find itself lined up to be included in a discussion of 'limitations of the present research'.

This is one aspect of the peculiarity of the situation, where detailed knowledge of, for example, the linguistic and technical aspects of an industry being studied, are not regarded as obviously desirable attainments. The ‘transfer of technology’ can be queried and researched without any necessary understanding of the technology in question. If you ask a question ‘how good is the technology transfer’, where the possible answers are 1 (very bad) through to 5 (very good), it may not seem to matter whether cheese or nuclear fusion is being pursued.

It is within this paradigm that we find a curious indifference to the language issue (as if translation of questionnaires or interview transcripts could solve the problem). In the academic field of international business, the language of publication and discussion that matters is English. This means that there is a great deal of research carried out by native English speakers working on countries whose languages they do not speak. In other social sciences, the idea of a country specialist who does not speak the language of the country is regarded with surprise verging on disbelief. In IB academia it is common. The field is also characterised by researchers who speak a non-English language which is pertinent to the country in which they specialise; this language is usually the native tongue of the researcher. This is the case with this thesis.

Biography of one who is Chinese, who is living through the events, who understands intimately why China wants to copy the west, and why it also wishes not to. This thesis is about a joint venture and its SOE parent company. One of the issues raised in the international business literature, is that of host country parent company learning through its international joint venture. There is a literature about how and why such learning occurs, or fails to occur. The opening of China to the outside world is a subject of great historical interest, and immense contemporary significance for all the rest of the world. The meeting of China and the world can be understood and sought at many different levels. In this thesis we are able to bring some of these levels together, and allow them to intersect.

The author of this thesis is Chinese, with Mandarin Chinese as a mother tongue. The prior knowledge of the technicalities of the technology transfer under study, gives the researcher the ability to understand the issues as they present themselves to, and as they are expressed by, the people under study. This knowledge gives the researcher confidence in interview, and gives the interviewee confidence in the understanding and probity of the interviewer. ‘The methods sections of most research papers’ are ‘literary fictions’ (Meyer et al, 1992). I could have disguised these things as anonymous researchers carrying out the perfectly designed cross-cultural research on the perfect company sample of pliant and co-operating companies. That would have been the ‘literary fiction’ which is to be found in ‘the methods sections of most research papers’.

This thesis would not be the same if not because of my background, my knowledge of China and my native language advantages. Here, we have a young Chinese, with good political connections, who has spent over a decade within the UK educational system, who has detailed knowledge of many of the relevant technologies appropriate to the joint venture between a Chinese company and

a non-Chinese company which he is studying. He is part of the expansion and opening of China to the outside world; indeed, he embodies it, or part of it. He knows its hopes, dreams and fears. The joint venture which he is studying, is part of that context of hopes, dreams and fears. The context helps to make sense of the detail, and the detail to make sense of the context. In the lives of the living acting people, these things come together. It is both preposterous and diminishing to try to pretend that the researcher is an objective observer. 'Moreover, the text creates the subtle impression of more coherence than our experiences and actions warrant. In this regard, the telling has much in common with the literary fictions found in the methods sections of most research papers' (Meyer, Barley & Gash, 1992)

However, if in a "parallel universe" where everything else are the same but only that I am not a Chinese, China would still be the country I choose to study because of the economic importance and the state-capitalist institutional environment. The case company FAW and its joint venture FAW-VW would still be the top choice if one desires to study the issues of international joint venture performance measurements and parent company learning through international joint ventures. The key reason is that the 25 years' history of FAW-VW allows the joint venture to mature and form its own ecological system. Many initial problems of joint venture that early business studies had focused on would be drawn out or resolved. The true nature and real problems of long-term joint venture could be unveiled. It is the same with FAW, its parent company. The long and rich history of FAW took it through the planned economy, transitional economy and state-capitalist economy. It is also unusual to have a poorly performed parent company to own a highly successful joint venture for more than 25 years. A perfect research opportunity to not only construct a Chinese model of SOE and IJV, but a human model that explains human behaviour under such circumstances.

The rise of Chinese state owned enterprises on the global stage has become an important phenomenon in international business with scant attention in the literature. A wealth of managerial and organizational aspects of Chinese SOEs remains unexplored by researchers due to limited accessibility (Cuervo-Cazurra, Inkpen, Musacchio and Ramaswamy, 2014). In 2002, using detailed cross section data, Buckley, Clegg and Wang found that Chinese state owned manufacturing firms receive negative spillovers from foreign direct investment due to the lack of absorptive capacity. The 2002 study concluded that the lack of absorptive capacity was partly due to the Chinese SOE's lifetime employment system, and the rigid personnel management style that prevents high quality employees to contribute fully (Buckley, Clegg and Wang, 2002). The 2002 study also recognized the complex nature of the Chinese SOE, as Chinese SOEs' goals are not simply the production of goods, but also maintaining political support for the government and more.

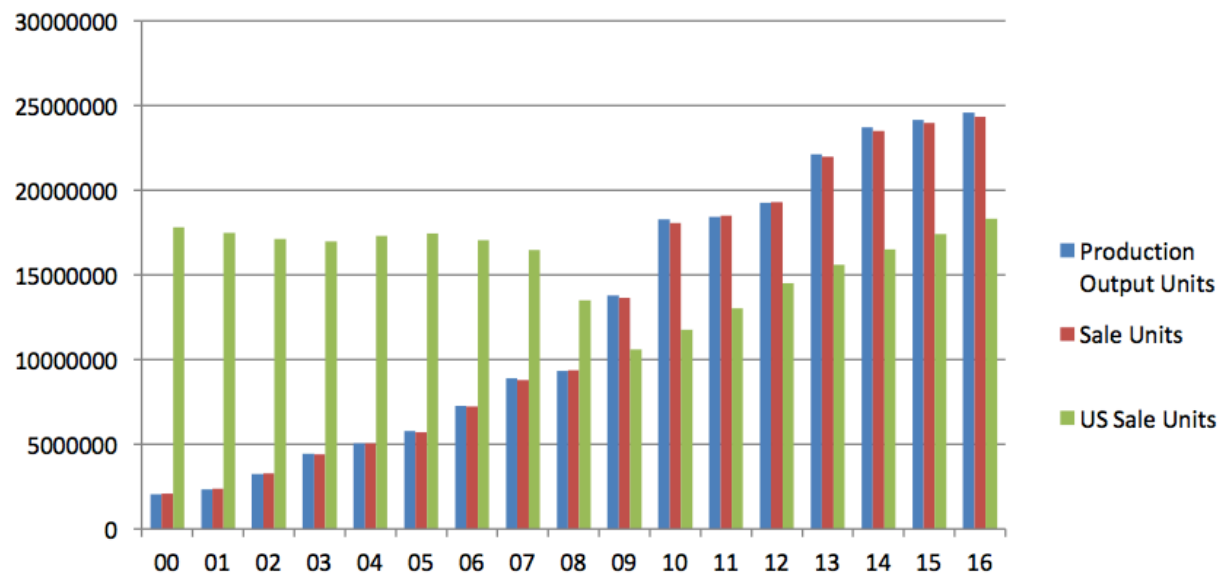
This thesis is aiming to explore this issues from the Chinese joint venture engineer and staff member perspectives and SOE engineer and staff member perspectives. Through a qualitative research lens, to give the Chinese joint venture engineers and staff members, SOE engineers and

managers a voice in this theoretical conversation.

The automotive industry has been one of the most economically, scientifically and politically influential industries in modern history. Drucker described the automotive industry as the “industry of industries” (Drucker, 1946). It is the industry that invented mass production (Ford and Crowther, 1922) and the lean manufacturing model (Womack, Jones and Roos, 1990). The car is a product that combined technological development, advanced engineering, powerful industrial companies, global production chains, deep social change, and important cross-cultural issues. The automotive industry is one of the six pillar industries of the Chinese economy (Buckley, Clegg, Zheng, Siler and Giorgioni, 2007). It played a major role in the development process of the Chinese economy, turning an isolated country to the second largest economy in the world in just three decades (Wearden, 2010). The strong growth of the automotive sector in China made it emblematic of the Chinese economy - as the automotive sector grew, so did China. Chinese economic growth is driven by the combined power of market and plan, consumption and investment, within the unique context of China, so is the Chinese automotive sector.

Like many other industries, the Chinese automotive industry was not part of the world automotive industry until 1980s. In 1979, the General Motors board turned down a motion proposed by the CEO, Thomas Murphy, to form the first joint venture company in China. The reason behind the rejection was logical: the passenger car market in China was a complete blank and the foundation of automotive manufacturing was stuck in the 1940s. The GM board was not sure if the Chinese passenger car market could ever grow to a size that would make investing worthwhile, and the board concluded that the project was too risky (Chen, 2008). Thirty years later, as shown in figure1 below, China overtook Japan and the USA to become the world’s largest automotive market in both production output and sales.

Figure1 Chinese Automotive Industry Annual Sales and Output and the US Sales 2000-2016



(Source: China Association of Automobile Manufacturers CAAM and Ward’s Auto world)

The Chinese automotive industry is a half state controlled and half open market industry. The Chinese automotive market is open to MNEs with restrictions. The Chinese government industry regulations prevent MNEs to manufacture whole vehicle in China unless it forms a joint venture with a domestic partner. MNEs must own 25% to 49% of the IJV. Imported vehicles would face heavy tariffs (as high as 200% in 1990s and 2000s, but reduced after 2010), making joint venture the only viable option for large multinational automakers to serve the Chinese market. The explicit goals of these government restrictions were to “develop the domestic automotive industry, captivate advanced automotive manufacturing technologies and accumulate leading management experience through IJVs to develop indigenous brands” (Chinese Automotive Industry Development Policy 1994, 2004, 2009). As shown in Figure1, market development has been achieved through these international joint ventures. In 2016, international joint ventures control 62% of the Chinese automotive market in volume and over 70% in value (CAAM).

The phenomenon that raised research interest of this thesis is that after 30 years of rapid market growth and 25 years of managing successful international joint ventures with MNEs like Volkswagen, Chinese state owned automotive manufacturer like First Automotive Works (FAW) still fails to develop a popular car for the Chinese market.

The author has followed the advice from Welbourne, “forget about being ‘at the table’ and get out into the jungle” (Welbourne, 2011), and was looking for every opportunity to talk to engineers and staff members of FAW and FAW-VW. Scholars has recognized that industrial anthropology largely characterized by focusing on workers with limited attention given to managers and engineers, due to the lack of access (Chapman, Gajewska-De Mattos and Antoniou, 2004). To this study in particular, Chinese engineers are the key group of people that actually understand, absorb and possess knowledge of real technologies. In order to gain market and technological knowledge and access to potential interviewees, the author has undertaken a six-month internship in 2012 as a market analyst in the global automotive division of a US multinational consultancy company in London. During my internship, I completed a research project on the Advanced Driving Assistance System (ADAS) in the Chinese automotive industry. The ADAS technologies are an important technology development step towards autonomous (or ‘self-drive’) vehicles. During this internship, I conducted 37 interviews. These included Chinese government regulators, R&D researchers, foreign and indigenous suppliers, R&D managers of international joint venture (including FAW-VW), state owned and private owned car manufacturers, and the R&D manager and engineers working on ADAS technologies of the Hongqi project. In 2013, I visited the First Automotive Works (FAW). Through industry connections built during the internship and personal connections, I interviewed engineers and managers working in the FAW Passenger Car Company, the FAW R&D center, the FAW-VW joint venture and the VW-FAW joint venture engine factory. My study of the joint ventures (FAW-VW and VW-FAW) is around the engine technology, including the production management and the ownership of the technology. My study of the FAW group is around the development of the new Hongqi L5 and H7 models, which I also studied in the ADAS

project.

The primary research of this thesis is designed to be based on specific (ADAS and Engine) technologies and model (Hongqi L5 and H7) development. The advantage of base the interview on specific technologies and models is clarity. It is clear from my interviews how specific technologies are transacted, transferred and managed between suppliers, MNE, joint venture and SOE. This clarity improves the accuracy of understanding the institutional environment and learning mechanisms in SOE and IJV.

During this study, in 2013, a major anti-corruption campaign started in China under the new Party leadership. In the course of this, 80 top and midlevel Chinese managers of FAW and the FAW-VW joint venture were arrested on corruption charges. In March 2015, the President and Party Chief of the FAW Group, Xu Jianyi, was placed under investigation by the Chinese Communist Party's internal disciplinary body. In February 2017, Xu Jianyi was sentenced to 11 years and 6 months of imprisonment for corruption. These corruption cases have opened up a new dimension of this thesis. Under this rare circumstances, with all the detailed court transcripts become available to public, a dimension of power relations and SOE and IJV management, which researchers knew exists but had no grip on suddenly opened wide up under the sunlight. In a matter of days, reality became fictions and fictions became reality. These rather dramatic events present a real chance for this thesis to review a much more complete picture of the real motivations and narratives SOE and IJV managers have constructed about organisational learning and building the indigenous brand.

Chapter 2: Literature Review

International joint venture (IJV) is defined as “jointly owned organizational entities by two or more legally distinct organizations, in which the headquarters of at least one is located outside the country of operation of the entity” (Shenkar and Zeira, 1987, Ren, Gray and Kim, 2009). Joint venture as a common form of long-term business alliance and foreign investment entry mode is an important part of the international business and management literature. Researchers have established some main research themes that give insights into the complex nature of IJVs. International joint ventures are owned and controlled by parent firms with different motives and institutional backgrounds that often complement and contradict simultaneously (Lax and Sebenius, 1986, Hamel, Doz and Prahalad, 1989, Yan and Gray, 1994, Ren, Gray and Kim, 2009). To review these relevant literature themes in detail and construct our research questions from the existing literature, this literature review will focus on two main IJV themes:

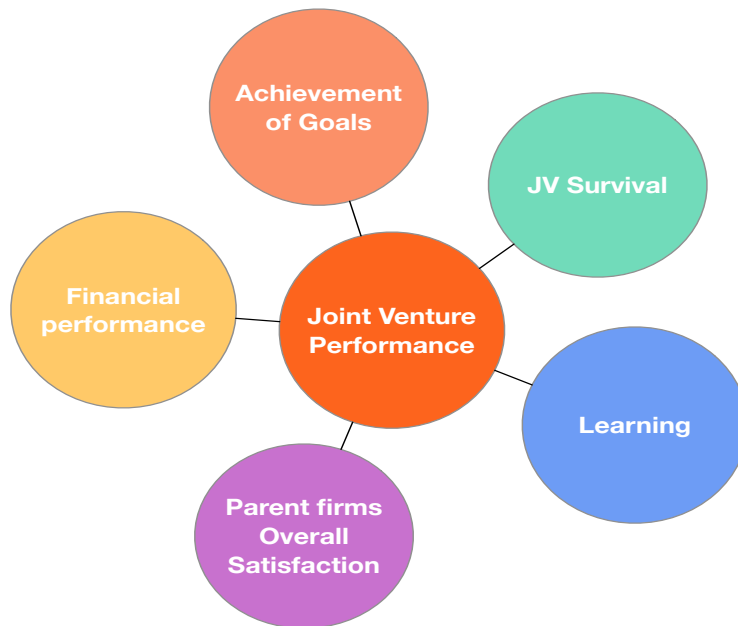
To determine the power relationships between organisations of SOE and IJV

1. The performance measurements of international joint ventures
2. The key performance determinants of these goals

2.1 Literature of international joint venture performance goals

For decades, researchers have been searching for the most suitable and accurate measurement of IJV performance (Yan and Zeng, 1999, Ren, Gray & Kim, 2009). The fact that researchers have failed to agree on the most appropriate IJV performance measurement reflects the complicated nature of IJVs (Reus & Ritchie, 2004, Krishnan, Martin, & Noorderhaven, 2006).

Figure2 Measurements of Joint Venture Performance



As Figure2 shows, previous literature has produced five major performance measurements of IJVs. The references relevant to these five performance measurements are given in the following table

Table 1:

IJV Performance Measurements	Past Literature
Parent Firms Overall Satisfaction	Boateng and Glaister, 2002; Demirbag and Mirza, 2000; Dhanaraj et al., 2004; Gong, Shenkar, Luo & Nyaw, 2005, 2007; Isobe, Makino & Montgomery, 2000; Kwon, 2008; Lane, Salk & Lyles, 2001; Li and Hambrick, 2005; Luo and Park, 2004; Luo, Shenkar & Nyaw, 2001; Nakos and Brouthers, 2008; Yehekel, Zeira, Shenkar & Newburry, 2001; Zhang and Li, 2001
Achievements of Goals	Brouthers and Bamossy, 2006; Child and Yan, 2003; Fryxell, Dooley & Vryza, 2002; Krishnan, Martin & Noorderhaven, 2006; Luo, 2002c, 2008; Ng, Lau & Nyaw, 2007; Robson, Katsikeas and Bello, 2008; Zollo, Reuer & Singh, 2002; Kumaraswamy, Mudambi, Saranga & Tripathy, 2012
Financial Performance	Choi and Beamish, 2004; Dhanaraj, Lyles, Steensma & Tihanyi, 2004; Lu and Xu, 2006, Luo, 2001, 2002a, 2002b, 2005, 2007a, 2008;

	Robins, Tallman & Fladmoe-Lindquist, 2002; Zhang, Li, Hitt & Cui, 2007; MacDuffie, 2013
Learning	Dhanaraj et al., 2004; Lane et al., 2001; Tsang, 2002; Zollo et al., 2002; Khan, Shenkar & Lew, 2015; Alcacer and Oxley, 2014; Lee, 2011; Jackson and Deeg, 2008
Survival	Dhanaraj and Beamish, 2004; Gaur and Lu, 2007; Kumar, 2005; Lu and Xu, 2006; Makino, Chan, Isobe & Beamish, 2007; Meschi and Riccio, 2008; Steensma and Lyles, 2000; Corredoira and McDermott, 2014

Researchers have evaluated the strengths and weaknesses among the five key IJV performance measurements and failed to find one dominant and comprehensive model (Ren, Gray & Kim, 2009). As a result, past studies used contradictory performance measurements, applied different methodologies, collected different variables and adopted different research designs to study IJVs, which means that the studies cannot readily be compared one with another (Steensma & Lyles, 2000; Yan & Gray, 2001b; Luo, 2002a, 2002b; Dhanaraj & Beamish, 2004; Gong, Shenkar, Luo & Nyaw, 2005; Lu & Xu, 2006).

This thesis argues that there is limited value in trying to find one single and best performance measurement for IJVs. The five performance measurements listed above each represent a different and important aspect of the overall IJV performance. These aspects exist simultaneously in IJV. Each can be part of the parent firms' and IJV's evaluation of performance, and thus influence the decision-making process and the ultimate survival of the IJV. To gain an accurate understanding of the FAW-VW, this thesis will present the joint venture Chinese engineer and staff member perspectives on joint venture performance goals. We are not trying, therefore, to find a single 'accurate' measure of IJV performance; rather, we are interested in studying the complicated interactions between these performance aspects. Instead of choosing one or two performance measurements like in the past literature, this thesis will review all five IJV performance measurements, in order to explore the institutional environment of FAW-VW. In the following sections, we will examine each of these measurements individually and discuss the relationships between these measurements.

2.1.1 Parent firms' overall satisfaction and achievements of goals

This thesis argues that IJV performance is a relative term whose meaning derives from the purpose of the parent firms of the joint venture. *Parent firms' overall satisfaction and achievements of goals* are certainly related to *financial performance, learning and joint venture survival*, but different performance aspects matter in different situations to different partners at different times.

A joint venture is set up to serve the purposes of its parent firms. Whatever the objectives are, they are the most important performance measurement to parent firms and the joint venture itself. These interactions change over time, and what the objectives were at the start, are not necessarily those that are ultimately achieved or indeed ultimately valued.

As one of the great English language poems of the 20th century, T.S. Eliot's Four Quartets:
...And what you thought you came for
Is only a shell, a husk of meaning
From which the purpose breaks only when fulfilled

In order to analyse the performance of the joint venture, the initial goals of the different parent firms must be determined. Therefore, we need to start by analysing the literature on motivations and partner selections of IJVs, then we will discuss the parent firms' overall satisfaction and achievements of goals as performance measurements.

Figure 3 Achievements of goals



As Figure 3 shows, there are at least three parts of the measurement of the achievements of goals, because there are at least three interested parties in a joint venture: the indigenous partner, the MNE foreign partner and the joint venture itself. The three parties can have similar or divergent goals. To understand these goals, we will review the motivations of the partners to set up the joint venture. Early IJV research focused on the motivations of parent companies to form joint ventures (Kogut, 1988, Hladik, 1985, Contractor and Lorange, 1988, Friedmann and Kalmanoff, 1961, Gomes-Casseres, 1989, Harrigan, 1988a, Hennart, 1991) and other themes of international joint ventures as a common entry mode to a foreign market such as partner selections (Blodgett, 1991, Brown, Rugman & Verbeke, 1989, Burton & Saelens, 1982, Geringer, 1991, Harrigan, 1988b).

According to Dunning, there are four types of foreign investment motivations in general: efficiency seeking, market seeking, natural resource seeking and strategic asset seeking (Dunning, 1998).

We can apply Dunning's OLI paradigm to the Chinese automotive industry; the multinational car manufacturers have ownership advantages, as MNEs have technological and managerial advantages over the Chinese domestic carmakers. China and the Chinese state-owned car companies have the location advantages, as they can provide cheap and relatively well-trained and well-disciplined labour, and these advantages are jealously nurtured and protected by the Chinese government. More importantly, particularly in the earlier part of the story in the 1980s, the Chinese government held the key to an enormous, untapped and closely protected market (Dunning, 1980). To MNEs, invest in China is not only market seeking strategy but also efficiency seeking and natural resources seeking movements. It is important for MNEs to take advantages of China's low production cost to remain competitive globally (Broadman and Sun, 1997, Fung, Iizaka and Parker, 2002, Cheng and Kwan, 2000, Couhlin and Segev, 2000). Western car companies strategically invested in China to compete against the raise of Japanese companies (Mann 1989, Dunne 2011). There are also some other important factors that attracted FDI to China, including positive economic growth and prosperity (Broadman and Sun, 1997, Couhlin and Segev, 2000), low labour cost and adequate labour quality (Broadman and Sun, 1997, Fung, Iizaka and Parker, 2002, Zhang, 2001, Chen and Kwan, 2000, Couhlin and Segev, 2000), favourable economic policies, regulations and government support, and these factors also determine the location choice of foreign investment within China (Head and Ries, 1996, Chen and Kwan, 2000, Fung, Iizaka and Parker, 2002, Zhang, 2001). Kogut's findings also confirm these motivations, he has summarised these motivations in three theoretical frameworks: the evasion of small number bargaining; the enhancement of competitive positioning and market power; and the mechanisms to transfer organizational knowledge. In addition, there are three theoretical approaches that can explain the motivations and strategic choices of joint ventures. The transaction costs theory: firms are looking to minimise the sum of production and transaction costs; the strategic behaviour theory: firms are looking to maximise profits through improving competitive position; and the organizational theory: firms are looking to encourage production efficiency and productivity (Kogut, 1988).

The term "international joint venture", as a form of long-term business alliance and foreign entry mode, was first introduced to the Chinese authorities in 1978, by the CEO of General Motors, Thomas Murphy, on his first trip to China (Li, 2004). The joint venture, as an idea and an organisational form, subsequently became a fundamental part of the "open door" policies designed to attract foreign investment and technologies to China. However, it was not the first time joint venture as a form of corporation was implied in communist China post 1949. Since 1955, the Chinese communist government introduced the concept of 'state-private joint corporations', which eventually lead to the total nationalization of all private businesses in China in 1966 (Wu, 2013). Enthusiastic foreign corporates were not scared off by the recent memories of this dark history as they are longing to tap in the untouched gigantic market with great potentials and prospects. The intimidation effect certainly existed in the 1980s for MNEs to set up joint ventures in China with blind hopes and fears of being late to the party (Mann 1989, Dunne 2011). Not all MNEs have a clear objective when setting up IJVs. Some researchers provided a different perspective to explain the motivations of setting up IJVs. Researchers have identified the existence of joint venture waves,

with the possibility that some MNE's decision to form international joint venture is merely a form of crowd following "band-wagon" (Dimaggio and Powell, 1983). Under this assumption, some MNEs would intimidate the leading company's strategy in the industry regardless and the company would find reasons to justify their decisions (Gomes-Casseres, 1987). Business memo and literature show that some of the business decisions were made randomly, it could be inspired by attending a dinner party, having a conversation on the plane or reading a news article (Mann 1989, Dunne 2011).

As part of the joint venture literature, the motivations to form IJV are considered as well studied. However, the majority of past studies were mainly focused on the MNEs perspective, such as seeking access to new markets (Garcia-Canal, Duarte, Criado & Llana, 2002), seeking market power (Kogut, 1991), acquiring resources (Rothaermel and Boeker, 2008), improving efficiencies (Ahuja, 2000) and acquiring strategic assets (Dunning, 2008). There are other important motivations and benefits for MNEs to enter a foreign market through IJV, as it is a more flexible form of foreign involvement. It is a cheaper way to gain capital, resources, technology, knowledge and capabilities that is required to operate in a foreign market, because every party entering a JV needs to bring their unique contributions that will reduce the cost and risk (Varadarajan and Cunningham, 1995). Cultural distance is an important factor to the decision of foreign market entry mode choice. Finding a well-connected indigenous partner is desirable to MNE that comes from a very different cultural background to the host country to overcome the "liability of foreignness" (Kogut and Singh, 1988, Hennart and Reddy, 1997, Hennart and Larimo, 1998, Makino and Neupert, 2000). These motivations listed above inspired multinational carmakers to invest in China (Mann 1989, Dunne 2011, Nam, 2011). The legitimacy perspective is an important and understudied theoretical explanation of IJV investment. The key issue MNE has to face when investing abroad is to obtain the internal and external legitimacy, as they "require isomorphic conformity to conflicting institutional rules and norms" (Kostova and Zaheer, 1999, Xu and Shenkar, 2002, Lu and Xu, 2006). The local parent constitutes a part of the IJV's local institutions, as well as a part of its internal environment. The overlap between an IJV's local and internal environments makes fulfilling the dual-legitimacy requirement an even more complicated task, as legitimacy with the local parent may evoke rejection, disapproval, and distrust by the foreign parent, with few exceptions (Xu and Shenkar, 2002, Lu and Xu, 2006). As forming a joint venture with a sizable state-owned company would provide MNEs with the important legitimacy and political justification for the FDI, especially in 1980s-90s, it is important to understand the Chinese SOEs goals of setting up the joint venture. There is a lack of real understanding and detailed analysis on the motivations and benefits of the Chinese SOEs to form IJVs with MNEs from the Chinese perspective in the past literature.

Like many other transition economies, "foreign parents are seen as reservoirs of both technical know-how and managerial (process-related) knowledge" (Child and Markoczy 1993, Lyles and Salk, 1996). To achieve the transfer of knowledge and technology in different sectors, especially in manufacturing sectors, has been a major objective of the Chinese government and SOEs. In

exchange, the government had given market access to foreign firms (Buckley, Clegg & Tan, 2003, Engardio, Roberts & Symonds, 1996, Brewer and Nollen, 1998). This policy is called “exchange technology for the market”, which was a major part of China’s “open-door” policy since the 80s. This policy emerged within the context of restricting total foreign ownership, thus force MNEs to form joint ventures as the investment entry mode to China. One of the key purposes of these policies is to localise MNE’s productions with indigenous partners and transferring production, management and R&D technologies and capabilities to their indigenous SOE partners (Martinsons and Tseng, 1999, Reddy and Zhao, 1990).

The priority of the Chinese government in 1980s was to integrate the nation into the global economy and supply chains through FDIs and benefit from the knowledge/technology transfers and spillovers generated from FDIs (Chen and Chen, 1998, Buckley, 2009, Buckley and Casson, 2009). In one hand, the Chinese central and regional governments at every level have given a warm welcome to foreign investment since the 80s. The quantity of FDI attracted to a region became an important performance indicator that is closely associated with the career prospects of the regional government leaders. In the other hand, the first draft of the Chinese Law of Foreign Equity Joint Ventures was implemented in 1979, and amended in 2001. According to the law, foreign partners of IJVs were required to contribute more than 25% of the capital. The law stated that MNE’s capital contribution can be cash, equity and technology and the technology and equipment invested by the foreign partner must be the advanced technology and equipment which is suitable for the country’s need. If MNE intentionally deceived the indigenous partner with out-dated technology and equipment, the foreign partner should compensate for the losses. In 1994, the central government issued the industry regulation named the Chinese Auto Industry Policy, which was amended in 2004 and 2009. According to the policy, foreign car manufacturers cannot operate wholly owned manufacturing companies in China. Instead, they must form joint ventures with Chinese manufactures with their shares limited to a 50:50 ownership structure. Like the previous versions, the latest amended version of the regulation issued in 2009 that has listed the key technologies the Chinese government encourage MNEs to introduce, including technologies of electric cars, which the Chinese government has a strong interest in developing. This regulation also emphasised the importance of localise innovation and R&D. The Automobile Industry Restructuring and Revitalization Plan is another regulation that influences the industry and restricts/redirects foreign investment. The plan requires MNEs when setting up new IJV must acquire an existing manufacturing factory if they should decide to build a new plant. The Energy-Saving and New Energy Automotive Industry Development Plan (2012-2020) requires new joint ventures to domestically develop models for the Chinese market and joint ventures also required to develop new energy car models in China. These policies and regulations showed clearly that the government has a strong presence in the automotive industry in China. Therefore, because the Chinese law and regulations that prohibit total foreign ownership, most of the FDIs to China were in the form of setting up international joint ventures with state-owned enterprises as partners (Beamish and Wang, 1989, Demir and Soderman, 2007, Chaney and Gamble, 2008). It is important to consider the legal restrictions and government interferences when MNEs decided to

invest in China. The explicit purpose of these regulations was to encourage, even to enforce, knowledge transferred from foreign carmakers to Chinese carmakers through joint ventures (Buck et al. 2000, Zhao, Anand & Mitchell, 2005). The choice of entry mode is limited to MNEs in the automotive industry in China.

Through setting up joint ventures with Chinese SOEs, MNEs want to gain access to the Chinese market and reduce the cost of production. The Chinese SOEs want to gain technologies and knowledge to establish the SOE's brand and be competitive domestically and globally. These motivations of the parent firms to form IJV are contradictory to each other. Although there are some benefits to have an indigenous partner, such as reduce the transaction costs (Shan, 1991, Pan, 1996, Zhao and Gangti, 1998). However, Studwell in 2002 stated that foreign invested enterprises in China were struggling to operate profitably due to high transaction costs arising from discriminatory treatment, bureaucracy and a poor economic environment. Technological properties and brand values are the most important intangible assets to MNEs and thus have a critical influence on firm's entry mode decisions (Kogut, 1988, Kogut and Singh, 1988, Hennart, 1991, Dunning 1993, Hennart and Park, 1993, Guillen, 2003). Some researchers concluded that the nature of shared ownership of international joint ventures expose these important assets to contractual risks (Caves, 1996) and technology intensive firms are likely to abandon joint venture entry modes due to contractual hazards (Henisz and Williamson 1999, Guillen 2003). Therefore, we can conclude that some of the initial motivations of parent firms to form IJVs in the Chinese automotive industry are contradicted. There is an old and cynical phrase in Chinese to describe this kind of relationship and alliance, "same bed, different dreams". Therefore, according to the literature, joint ventures in China do not have an enticing prospect.

After reviewed different parent firms' goals of setting up joint ventures, we need to discuss the literature on parent firms' overall satisfaction and achievements of goals as IJV performance measurements. Achievement of goals is a subjective performance assessment that measures the satisfactions from each parent firm's perspectives (Yan and Gray, 2001a). Manager's opinions and assessments of the joint venture were often used to represent the measurement of goal achievements (Fryxell, Dooley & Vryza, 2002). Manager's opinions are thought to represent parent firm's perspectives and joint goal achievements (Robson, Katsikeas & Bello, 2008). Researchers used the achievements of individual and joint goals as a composite measurement that includes multiple objectives and dimensions (Luo, 2002c, Child and Yan, 2003, Brouthers and Bamoosy, 2006, Ng, Lau & Nyaw, 2007, Robson, Katsikeas & Bello, 2008). Researchers often question managers from all interest parties (parent firms and the joint venture) to improve the reliability of their findings (Zollo, Reuer & Sign, 2002, Gong et al., 2005, 2007, Ng et al., 2007, Luo, 2008). However, in reality, different parent firms/individual managers value the joint venture differently, different managers have different understandings of the joint venture, the goals, the relationship between parent firms, the joint venture and individual goals.

The other subjective performance measurement is overall satisfaction, which is also based on manager's evaluations and opinions on IJV overall performance. It is a common IJV performance measurement that comprising various other measurements (Demirbag and Mirza, 2000, Isobe et al., 2000, Yeheskel, Zeira, Shenkar & Newburry, 2001, Zhang and Li, 2001, Boateng and Glaister, 2002, Luo and Park, 2004, Li and Hambrick, 2005, Kwon, 2008, Nakos and Brouthers, 2008). The overall satisfaction measurement faces similar challenges from the measurement of achievements of goals. Researchers tried to improve the accuracy by examine managers from parent firms and IJV (Fey and Beamish, 2001, Lane, Salk & Lyles, 2001, Dhanaraj et al., 2004, Gong et al., 2005, 2007). As subjective measurements, both overall satisfaction and achievements of goals are open to manager's personal biases. A manager of production units would have his/her priorities that he/she thinks matter the most to the joint venture/parent firms. He/she would also have limited knowledge and insight into other departments of the joint venture such as the marketing and finance units. Not all departments are equally important, so some manager's opinion would be more important. Depend on the research focus, different individual manager's contribution varies as well. Therefore, without differentiating and analyse the data in detail, a survey results would not holistically reflect the reality. The evaluation of the differences in individual understandings and satisfactions should be made valuable in the research (Luo, Shenkar & Nyaw, 2001).

Figure 4 Achievements of Goals and Parent Firm's Overall Satisfaction

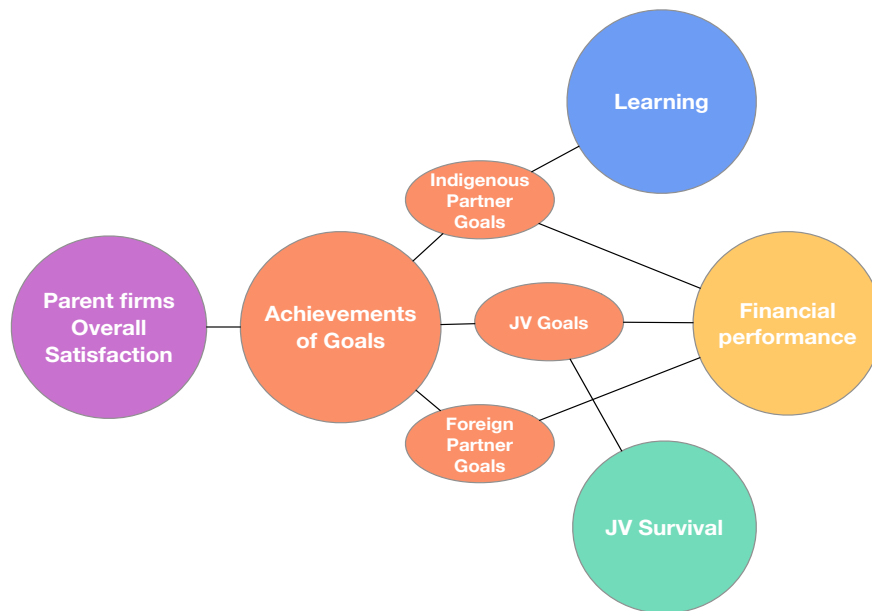


Figure 4 summarised the relationships between learning, financial performance and joint venture survival to the achievements of goals and parent firms' overall satisfaction. These relationships are based on the past literature and we will review each relationship in detail. Through the literature review, some problems with the existing literature on parent firms and IJV goals and overall satisfactions have emerged. It is a common assumption in the past literature that joint venture and its parent firms have clear objectives and goals. The parent firm's objectives have a strong influence on joint venture goals and joint venture operations. Anderson in 1990 suggested that joint venture should be evaluated as independent entity rather than parent's subsidiaries. If there

are conflicts between the interests of joint ventures and the parent firms' interests, joint ventures will seek to maximise their own performance rather than the parent firm's (Anderson, 1990). However, the survival of the joint venture and the job perspective of individual joint venture manager are dependent on parent firm's satisfactions and achievements of goals. Therefore, the joint venture can never be isolated from parent firm's influence. Although studying joint venture as complete independent entity would not present an accurate description of the reality. It is important to recognise the possibility that IJV's interests are independent, sometimes perhaps more important than the parent firm's interests. In addition, it is important recognise the possibility that personal goals of individuals who work within the joint venture and parent firms may contradict with the "official goals" of the company they are representing. Another challenge this thesis posts is that researchers often assumed that the goals of parent firms and joint ventures would not change. However, to survive, joint ventures must learn to adapt and adjust to the conflicting motivations in a fast changing environment. We must consider the possibility that, corporations, like human beings, can change their minds and adjust their actions accordingly. The process of changing goals and adapt to the changes is understudied. Studying the fascinating and unique characteristic of joint venture is about understanding the fine balance between all interest parties with complicated internal and external forces. Joint venture management is a fine art of constantly compromising and balancing all obstacles through interactions, conflicts, negotiations and corporations. Any attempt to simplify and generalise the management of IJV is getting more kicks than halfpence. This thesis is designed to preserve and present the complex nature of joint ventures in China as it is.

2.1.2 Financial performance

Financial performance is perhaps the most common and important performance measure of all commercial organisations. Two cogent and plausible measures of financial performance are profitability and market share. Profitability and market share measurements are commonly used when examining IJV performance (Robins, Tallman & Fladmoe-Lindquist, 2002; Luo, 2002a, 2002b, 2005, 2007a, 2008; Lu and Xu, 2006; Zhang, Li, Hitt & Cui, 2007). There is a research trend of using financial performance as a validation measurement that can be tested against other subjective and objective measurements by establishing correlations (Luo, 2001; Isobe et al., 2000; Choi and Beamish, 2004; Dhanaraj et al., 2004). The validity of this research trend does of course depend upon the financial performance measure being somehow more real, valid, stable and objective than the others, which is arguable to say the least.

To achieve sustainable and high profitability is the ultimate goal to all business managers, thus financial performance is a very common performance measurement used by researchers in IJV studies (Lu and Xu, 2006, Luo, 2001, 2002a, 2002b, 2005, 2007a, 2008, Robins, Tallman & Fladmoe-Lindquist, 2002, Zhang, Li, Hitt & Cui, 2007). As shown in Figure 4, although parent firms and the IJV may have different goals and objectives, a high return of the capital investment

is the unanimous goal to all parties. No one hates money, which make financial performance measurement the most important objective measurement of IJV performance. Thus, there is a positive correlation between financial performance and achievements of goals (Isobe et al., 2000, Luo, 2001).

Since 1980s, the Chinese automotive industry is dominated by international joint ventures that are created by Western, Japanese and Korean multinational car manufacturers with Chinese state owned car manufacturers. These international joint ventures have created and made up the largest automotive market in the world from nothing in less than 30 years. Most of these joint ventures are greatly successful from the financial performance perspective and became a crucial strategic asset to both indigenous and foreign parent firms through the market development. A study of the Chinese automotive industry is a study of the evolution development of international joint ventures in China. It is a fascinating story of collaborations and conflicts between multinational carmakers and Chinese state owned enterprises through an unnatural form of corporate arrangement. A study of the Chinese automotive industry is a study of the development of foreign investment in China.

Since 2000s, the Chinese automotive market has been the “cash cow” for MNEs and SOEs. In 2013, General Motor have made 3.8 billion US dollar net profit globally, its joint ventures in China including SAIC-GM and SAIC-GM-Wuling have made 3.7 billion US dollar net profit with only 35% of GM’s global total sale (FT, 2014). In 2013, Volkswagen Group have made 11.7 billion Euro net profit globally, its joint ventures in China including SAIC-VW and FAW-VW have made 9.6 billion Euro net profit with less than 40% of VW’s global total sale (FT, 2014). Although some IJVs are more profitable than others, the high success rate and the absolute market dominance of IJVs in a country is a very interesting phenomenon. This phenomenon can only be fully understand as we review all the aspects of institutional and organisational factors that can influence the performance of IJVs. These include both the internal and external factors that make foreign car manufacturers collaborate successfully with Chinese state owned manufacturers through IJVs.

There are also some downsides of relying on financial performance as a single and most important measurement of IJV performance. Accurate financial information is very difficult to be obtained, especially if the IJV is not listed on the stock market, and the data is often mixed with the financial report of their parent firms (Ren et al., 2009). Focusing on financial performance itself does not share much light on the struggles that appeared during the process of pursuing profit. In contrary, high profitability and financial performance can overshadow hidden problems of the organisation. Thus, it is important to use financial performance as an objective performance measurement and compare it with other objective and subjective measurements both qualitatively and quantitatively. Researchers have found a high correlation between financial performance and joint venture survival/parent firms overall satisfaction (Choi and Beamish, 2004, Dhanaraj, Lyles, Steensma & Tihanyi, 2004). However, there is also the possibility that once the IJV has a strong financial performance, its parent firms will struggle for more control and more shares of the profit.

2.1.3 Learning - literature on knowledge and technology transfer

In this section, we will review the literature on knowledge/technology transfer. Before we evaluate learning as a joint venture performance measurement, we need to discuss what is learning and how does firm and individual learn. We also need to understand the kind of knowledge/technology parent firms and joint venture want to learn through the joint venture. There are two steps to knowledge creation for individuals and firms. One is to learn the existing knowledge from others, which can be defined as knowledge transfer. The other step is to create new knowledge from the accumulated knowledge. This thesis covers issues around both knowledge/technology transfer and knowledge creation process in the Chinese automotive industry.

The research field of knowledge transfer in joint ventures have been well established in the international business and management literature (Lane et al., 2001, Tsang, 2002, Zollo et al., 2002, Dhanaraj et al., 2004). A distinction is often made between explicit knowledge and tacit knowledge within knowledge transfer literature. In general, physical technology takes the form of explicit knowledge, because technology can be drawn, described, written down, measured, codified, copied, accurately made and taught through training. Tacit knowledge, by contrast, is cannot be written down or even be verbally expressed. Thus, tacit knowledge is what in the minds of engineers, managers and workers. It is often more valuable than explicit knowledge, and is harder to transfer (Kogut, 1988, Mowery, Oxley and Silverman, 1996). There are different forms of tacit knowledge, such as experience and understanding of the business operations of a firm under different, unexpected and changing circumstances (Hedlund and Nonaka, 1993). Some tacit knowledge is about understanding of how different kinds of explicit knowledge interact (Nonaka, 1994). Tacit knowledge also includes knowing the solutions and the process of finding solutions to daily operational, managerial and technical challenges relate to firm performance (Nelson & Winter, 1982). The transfer of tacit knowledge is more efficient through joint ventures than other forms of organisational arrangements, because tacit knowledge is often organizationally embedded and only can be transferred with daily collaborations (Kogut, 1988).

knowledge transfer is defined as the process and results of tacit and explicit knowledge from one individual/affiliate/agent/organization/parent firm to another individual/affiliate/agent/organization/parent firm (Hedlund and Nonaka, 1993, Buckley, Clegg & Tan, 2003). Knowledge transfer within and between organizations is a dynamic process (Nonaka, 1994, Lyles & Salk, 1996). Early researchers assumed that knowledge transfer is a one-direction process, that is from the MNE headquarter to its foreign affiliates (see Hymer, 1976, Kindleberger, 1969). Later researches have shown that knowledge transfer can occur in multiple directions, including reverse transfers, from affiliates to parent firms (Buckley, Clegg & Tan, 2003) and from MNEs to indigenous partners and other local companies (Blomstrom and Kokko, 1998, Liu, Wang and Wei, 2009).

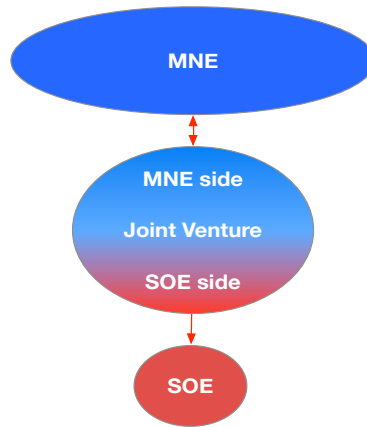


Figure 5

Funnel type of knowledge transfer through joint ventures (The arrows depict knowledge flow)

Knowledge/technology transfer and accumulation are considered to be one of the most important motivations of setting up IJVs from the SOEs perspective, and thus “learning” is an important aspect of IJV’s performance measurement (Hamel, Doz & Prahalad, 1989; Hamel, 1991; Kogut and Zander, 1992; Lyles and Schwenk, 1992; Lyles and Baird, 1994; Lyles and Salk, 1996; Inkpen and Beamish, 1997, Liu, Wang and Wei, 2009). Figure 5 reflects on the goals of Chinese SOEs when setting up IJV with MNEs as reviewed in the previous section. The funnel style of knowledge/technology transfer from MNEs to the Chinese SOE partners through the IJV is the ideal design of knowledge/technology transfer the Chinese SOEs and the Chinese government have wished for. Knowledge and technology would flow from MNEs into the foreign side of the joint venture, then through to the Chinese side of the joint venture, and finally reach to the SOE. The SOE then will be able to use these knowledge and technology to build their indigenous brand. The ultimate goal of the state-owned car manufacturer is to become technologically independent and be able to compete with the MNEs on the global scale. The past literature suggested that the funnel style of knowledge transfer structure could work because of the knowledge spill over effect (Lyles and Salk, 1996, Lane et al., 2001, Tsang, 2002, Liu et al., 2009). Other studies discovered that the absorptive capacities of the Chinese side of the IJV, and the Chinese parent company, have big influence on the success of the knowledge transfer process (Cohen and Levinthal, 1990, Lane, Salk & Lyles, 2001). Knowledge management abilities are also important to Chinese SOEs to apply the knowledge that has been transferred to indigenous brands (Easterby-Smith, Crossan & Nicolini, 2000, Hansen, Nohria & Tierney, 1999). Although these tacit knowledge and skills required is very difficult and costly to transfer (Polanyi, 1967, Teece, 1977, Inkpen and Pien, 2006), it is certainly not impossible for SOEs to learn from their MNE partners. At least, the great success of IJVs in China proved that important knowledge and technology have been successfully transferred from MNEs to IJVs. As discussed in the previous section, the motivations of the Chinese SOE partner are different from those of their foreign partners. While knowledge/technology accumulation of the joint venture is in line with the interest of the MNE partner, the knowledge/technology transfer to the Chinese SOE partner are against the interests of

MNEs. Researches have shown that such concerns over the protection of intellectual assets can be overcome by joint venture arrangement (Yan and Gray, 1994).

Learning is the key joint venture performance measurement that is at the core of this thesis because to understand how knowledge and technology are transferred, controlled and managed in the Chinese automotive industry, is the key to really understand how the industry, IJVs and SOEs operates. Despite the great financial success of the automotive IJVs in China, there has been a constant and on-going debate in China since the 90s, as to whether the IJVs have been, from the Chinese perspective, beneficial to the Chinese automotive industry's development. It seems to be a daft question, because past research showed strong evidence of the contributions of FDI to the Chinese economic growth (Chen, Chang and Zhang 1995). It is widely accepted that FDI generates economic growth, stimulate domestic investments, creating employment opportunities, promoting institutional reforms, improving productivity and resource allocation efficiency of Chinese domestic industries through knowledge and technology transfer (Chen et al. 1995, Sun 1998). Some negative effects of FDI were also discussed in the past literature, such as how FDI affected the imbalanced economics growth between regions in China; how transfer pricing and resultant income lost prevented Chinese firms to fully benefit from FDI and Chinese domestic firms try to benefit from policy incentives and favourable treatment by transfer money across boarder and disguise as FDI (Fleisher and Chen, 1997, Sun, 1998). More importantly, FDI may have squeeze/crowd out effects on domestic companies and investment by out compete domestic companies in technological, managerial expertise and preferential policies of the domestic government (Noorzoy, 1979, Jansen, 1995, Caves, 1996, Kim and Seo, 2003, Lipsey, 2004). It is widely accepted that the positive effects of FDI largely exceed the negative effects in the aspects of direct capital contributions and indirect knowledge spillovers (Balasubramanyam, Salisu & Sapsford, 1996, Liu, Wang & Wei, 2009). The development of the Chinese automotive industry is strong evidence to this statement. However, as the FT observed, the reality for Chinese indigenous brands is that "even the most ardent car lovers would struggle to identify some of the vehicles built by major multinational auto companies in China" (Mitchell, 2014). Yet, academically, little is known about why Chinese state-owned carmakers as parent firms to some very successful international joint ventures failed to learn from the partnerships to develop its indigenous brands (Nam, 2011). The majority of scholars and practitioners in the Chinese automotive industry blame such failure on the lack of learning.

Successful knowledge transfer has been closely linked with positive JV performance in the past literature, which reflects the knowledge transfer process from MNEs to IJVs (Lyles and Salk, 1996). In the case of Chinese automotive industry, the financial success of the IJV does not bring knowledge transfer to parent firms. In the Lyles and Salk's 1996 study, they based their research on IJVs in the Hungarian context. Hungary in the 1990s is a post central planning transition economy that has many similarities with China. Lyles and Salk have examined the organizational characteristics, structural mechanisms and contextual factors that influenced knowledge acquisition in IJVs. Their study closely linked organizational characteristics with the success of

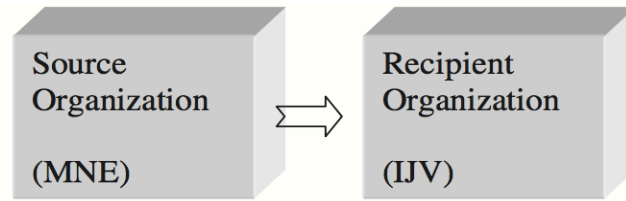
the knowledge transfer and knowledge acquisition. The Lyles and Salk's 1996 article was influential to later joint venture knowledge transfer studies. They have identified some key IJV characteristics that determine the success of the knowledge transfer from the foreign partner to the IJV. Those characteristics include the joint venture's current capability to absorb, circulate and utilize information (see also Cohen & Levinthal, 1990, Lane, Salk & Lyles, 2001, Tsang, 2002); a flexible organizational structure that is efficient, that encourages collaboration and exchanges of information internally, and can adapt to externally changes (see also Dodgson, 1993, Lyles & Barid, 1994); the ability to articulate goals and milestones that facilitate knowledge exchange between employees (see also Hill & Hellriegel, 1994, Nonaka & Takeuchi, 1995, von Krogh et al. 1994); and active involvement of the foreign partner in knowledge transfer and training (see also Markoczy, 1994). Lyles and Salk's 1996 study emphasized the importance of top managers to the knowledge transfer process. Researchers have studied the human resources perspective of knowledge transfer such as staff turnover (Blomstrom and Kokko, 1998, Aguilera and Dencker, 2004). Past literature focused on the role of HR management in "supporting employee relations and the human side of the business venture" (Aguilera, 2006). Lyles and Salk also discovered some other important factors that can affect joint venture learning and knowledge acquisition, which were later studied by researchers. These factors include the element of mutual commitment and control (Dhanaraj et al., 2004, Muthusamy and White, 2005, Madhok, 2006), problems with parent company's effort of controlling proprietary resources, the high monitoring costs of opportunist behaviour (Barden et al., 2005), changes in the strategically significance of the IJV that can led to the changes in partner's contribution. Some researchers argued that as the market matures, foreign partner's contribution became less important to joint venture market performance but would be increasingly influential in joint venture learning process (Steensma et al., 2005). Luo and Peng in 1999 studied the relationships between the host country environmental forces and organizational/individual experiences with learning, and with performance effectiveness in a transition economy.

This thesis challenges some key assumptions and findings of these previous studies. First, previous studies assumed that knowledge could be measured and quantified. The measurements of knowledge and knowledge transfer used in mainstream quantitative studies are R&D/training spending intensity, numbers of patents and survey results. These measurements are very simplified and convenient ways to measure certain aspects of knowledge/technology/R&D capabilities. However, this thesis argues that knowledge and capability of an organisation cannot be accurately measured through these common measurements. Just like how much an individual person spends on his/her education and how many certificates that individual held do not necessarily reflect his/her capabilities at solving problems. In reality, an individual's capability and value can be accurately examined by setting different tasks over a period time, and these tasks are specific and real. The same applies to organisations, rather than focusing on the spending and number of patents, this thesis will examine specific and real technologies that will truly reflect a company's knowledge and technological/R&D abilities.

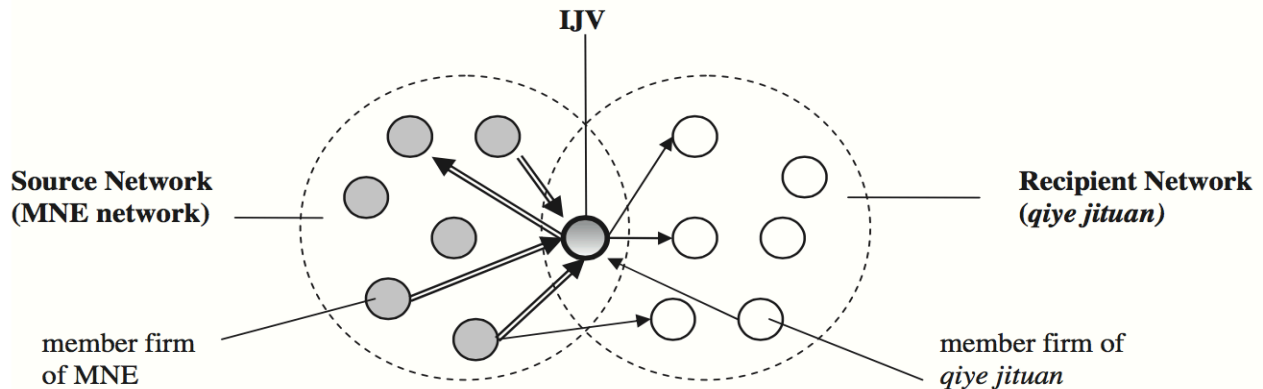
Previous studies assumed that the indigenous partners were motivated for knowledge acquisition and have incentives to learn from their foreign partners. Past literature focused on the knowledge transfer process from the foreign partner to the IJV, assuming that is the most important path of the knowledge transfer. However, the actual goal for Chinese SOEs is to acquire the knowledge from the MNEs and IJVs, and apply this knowledge to develop indigenous brands (Zhao, Anand & Mitchell, 2004, Zhao, Anand & Mitchell, 2005, Zhao and Anand, 2009). Previous studies largely overlooked the potential conflicts of interests between SOEs and their IJVs over knowledge transfer, which is related to the characteristics of the Chinese SOEs. Finally, past knowledge transfer studies rarely focus on specific technologies. The past literature also does not pay enough attention to individual managers and engineers, as they are the actual people who really understand the technology and how does knowledge and technology transfers.

The important assumption knowledge transfer studies have to make is to determine the actual network that the knowledge/technology flows in. Zhao and colleagues in 2004, 2005 and 2009 conducted three knowledge and technology transfer studies based on the Chinese automotive industry. In the 2005 paper, they have discussed some of the limitations of existing literature on the patterns of knowledge flow. Zhao and colleagues have discovered a dual networks perspective on inter-organizational transfer of R&D capabilities of the international joint ventures in the Chinese automotive industry. Their studies focused on companies that are involved in IJV and operates within larger networks of suppliers, distributors and public sectors (Granovetter, 1985, Peng & Heath, 1996, Tichy et al, 1979). The key argument of the 2005 paper is that, there is a knowledge network within the MNE group including foreign multinational car manufacturers and its component/technology suppliers, which is the “source network” and there is a knowledge network within the indigenous parent business groups called “qiye jituan” (“corporation group” in Chinese), including the Chinese state owned car manufacturers and its state owned/private suppliers, which is the “recipient network”. According to Zhao and colleagues, knowledge and R&D capabilities flow and transfer within both systems, and the two systems interact through the joint venture as shown in Figure 6.

Figure 6 Two perspectives on knowledge source and recipient in IJV capability transfer



a. The traditional unitary-actor perspective (the arrow depicts knowledge flow)



b. The dual-network perspective (the arrows depict knowledge flow)

(From Zhao, Anand & Mitchell, 2005)

Zhao and colleagues in 2005 took an inductive multiple case study approach, including field observation and interviews at R&D centres and manufacturing facilities of four different international joint ventures in the Chinese automotive industry. The Chinese automotive industry was chosen because “the industry faces significant technical, cultural and managerial barriers between source and recipient organizations”. The study aimed to identify how knowledge transfer between the MNE source network and the indigenous recipient network. The conclusion was that “the dual networks perspective is particularly relevant for emerging economies where the asymmetry between the knowledge, power and motivations of the recipient and source networks may significantly affect the knowledge transfer outcome.”

The key assumption of the 2005 study is that recipient network exists due to the ownership structure within the Chinese auto sector. “There are 21 business groups in the Chinese automobile industry. They represent over 90% of total Chinese automotive firms and revenues and each business group has its own technical centres” (Zhao et al, 2005, China Automotive Industry Yearbook, 2003). They stated that most of the component suppliers had joined a business group in the late 90s to survive, to serve the internal market, to conduct large R&D projects and to enhance their bargaining power. Such business groups are emerged to facilitate technical and managerial knowledge diffusion from initial learners to other members of the group. This situation is not unique to the Chinese SOE automotive groups. As a complex machine that combines a variety of cutting edge technologies, it is impossible for any car manufacturers in the world to internalise all

production processes for every component in the car. In fact, car manufacturers are often designers and assemblers. In the global automotive industry, multinational car manufacturers manage large supply chains of multinational suppliers (Jackson and Deeg, 2008, Lee, 2011, MacDuffie, 2013). The technology and knowledge flows through the supply chain from suppliers to car manufacturers and from car manufacturer to its suppliers. Car manufacturers rely on suppliers to provide large proportion of components either through a models based bidding contract or base building a long-term buyer-supplier relation. Traditionally, western MNEs such as GM, VW, Ford and BMW have a market based competitive supplier relations, suppliers would bid for different projects to lower the cost. Japanese and Korean MNEs such as Toyota, Honda and Hyundai, have long-term, stable and closely managed supplier's relations base on property rights. These traditional OEM-supplier relations are changing. In February 2015, VW published the "Future Automotive Supply Tracks" plan. In the FAST project, VW selected first 44 suppliers globally to be its primary suppliers in the future to be involved at earlier stages in the product development cycle. In the VW official announcement, it stated that, "the objective is to synchronize the global strategies of the Group and suppliers at an early stage and to generate innovations fast. FAST is therefore a major initiative for safeguarding the future of the Volkswagen Group and the automobile industry in technological and economic terms." Project like FAST is a form of internalization. Building a long-term, semi-fixed supplier network would reduce negotiation cost and transfer more technology development cost to suppliers (Kumaraswamy et al., 2012). In contrast, suppliers also rely on car manufacturers to provide instructions and collaborations to develop new technologies (Khan, 2015).

All MNE manage its large global network of suppliers, and these relationships naturally carried into the Chinese market with the joint venture. As the joint ventures are producing foreign partner's models, it often inherits the supply relationships with foreign suppliers that have factories in China. The IJV may also have jointly owned suppliers and privately owned Chinese suppliers. For key component such as the engine, the MNEs often choose to internalize the production either through importation or more commonly in recent years to set up joint venture factories in China with a MNE majority. In this thesis, we have studied a joint engine manufacturer that has three factories in China. Volkswagen and FAW set up the joint venture in 2004 with a VW majority ownership of 60%. It is an A-Class engine supplier to the joint venture FAW-VW that has more than 600 A-class suppliers. The quality of these suppliers' products collectively made up the quality of the whole vehicle. Any faults in a small part can seriously affect the operation of the vehicle. Therefore, the key knowledge of the modern car manufacturers is to build, develop, manage, integrate and monitoring a supplier network (Alcacer and Oxley, 2014, Corredoira and McDermott, 2014, Khan, Shenkar & Lew, 2015). To the joint venture and Chinese SOEs, large amount of technology transfer fee paid to their MNEs partners is a special feature of the Chinese automotive industry. Every model and technology when produced in China through joint venture, the joint venture and the parent firms need to negotiate a technology transfer fee to the MNE partner. Chinese state owned manufacturer often purchase retired production platform from their MNE partners when producing a new indigenous model. These are two very important source of income to MNEs in addition to their profit shares in the joint venture. Within these networks, knowledge transfers

through horizontal and vertical linkages MNEs made with local firms and institutions. Horizontal linkage spillover means local firms can improve their efficiency through observation or hire employees from their MNE competitors (Gorg and Greenaway, 2004, Wei and Liu, 2006). Vertical linkage spillover includes backward linkages and forward linkages. Backward linkages arise when MNEs acquire services and products from upstream industries. Researchers discovered that firms often encourage such linkages and spillovers to their local suppliers, so they can benefit from the upgrade of their suppliers' products and services (Javorcik, 2004, Kumaraswamy et al., 2012, Khan, 2015). Forward linkages arise when MNEs sell products and services to indigenous firms. Researchers believe forward linkages contribute to the development for local distribution and sales channels (Blomstrom and Kokko, 1998). In the case of Chinese automotive industry, forward linkage spillover is particularly relevant to the knowledge transfer process from MNE suppliers to Chinese SOEs. However, it is hard to distinguish which firm is local and which firm is foreign.

There are arguments that host country parent firm may not be able to learn due to the lack of absorptive capacity, as a theoretical concept was first introduced and defined as consists of the capabilities to recognise the value of new knowledge, to assimilate it, and to apply it to commercial ends (Cohen and Levinthal, 1989, 1990).

Figure 7 Absorptive capacity model based on Cohen and Levinthal 1989, 1990

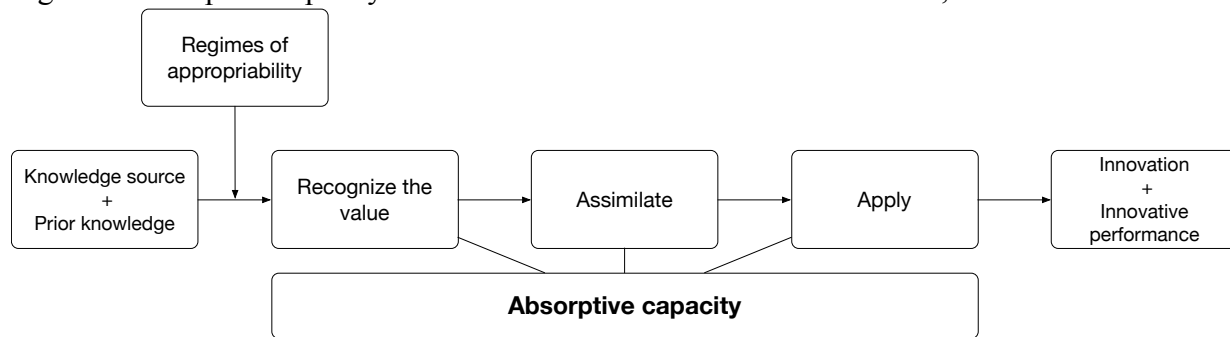


Figure 7 is the original absorptive capacity model based on Cohen and Levinthal's 1989 and 1990 studies. According to the absorptive capacity literature, as summarized in figure 7, there are some key components contribute to absorptive capacity. These key components include the availability of knowledge source, company's prior knowledge and experience, regimes of appropriability (environmental factors that affect a company's ability to gain profits generated by an innovation), recognise the value of external knowledge, abilities to assimilate and apply the external knowledge, awareness of the importance of absorptive capacity, ability and willingness to spend on R&D (which is determined by existing literature as a key path to generate absorptive capacity) (Cohen and Levinthal's 1989 and 1990, Zahra and George, 2002, Todorova and Durisin, 2007). These key components make the Chinese automotive industry and manufacturers a very interesting research field to examine and develop absorptive capacity theories.

To sum up, knowledge transfer is regarded as one of the most important performance measurement of IJV by many researchers (Lane et al., 2001, Dhanaraj et al., 2004). Learning is crucial to the success of a JV, thus is a key organizational outcome of IJVs, (Zollo et al., 2002, Tsang, 2002). The success or failure of knowledge transfer of the parent firms is often used to examine IJV performance as an independent entity (Gong et al., 2007). In the past literature, knowledge transfer is often measured through perceptual methods such as surveys and interviews (c.f. Khan et al., 2015). The validation of findings through these perceptual methods, especially survey is questionable as it is hard to examine how involved participants are with knowledge/technology transfer works. As shown in Figure 6, technologies and knowledge flow through a complex network (Kumaraswamy et al., 2012). It is also difficult for survey to capture the different directions and layers of learning. This thesis argues that the most effective way to comprehensively understand this technology network is to study specific technologies that transacts within the network. This thesis also argues that knowledge cannot be quantified and can only be tested by the product. Through studying specific technology, we can find the most valuable knowledge and capabilities to automotive companies in China.

2.1.4 The survival of joint ventures

The survival of joint ventures is another common IJV performance measurement in the past literature (Steensma and Lyles, 2000, Dhanaraj and Beamish, 2004, Kumar, 2005, Lu and Xu, 2006, Gaur and Lu, 2007, Meschi and Riccio, 2008). Longevity is a common and important indicator of IJV success, as joint venture survives because it remains the most efficient organization mode (Inkpen and Beamish, 1997). Termination often means failure in the joint venture performance and there could be serious consequences of such failures (Singh & Mitchwell, 1996).

There are issues around relying on longevity as the sole standard of survival performance (Lyles and Baird, 1994). When comparing joint ventures, if one joint venture was founded in 1993 and the other was founded in 2000, the length of survival of these joint ventures is irrelevant to their performance. The other limitation of using survival, as a performance indicator is that joint venture is often seen as a temporary solution to parent firms (Yan and Zeng, 1999). For example, MNEs want to gain local knowledge and establish local supply/distribution chains through joint venture, SOEs want to gain managerial knowledge and technologies to develop its own brands. Once parent firms' objectives were accomplished, the joint venture will be terminated and regarded as a great success (Gomes-Casseres, 1987, Kumar, 2005). Therefore, researchers emphasized the importance of understanding the true motives of parent companies and the real reasons behind joint venture termination. If the termination was unintended, then it is a signal of poor performance (Makino, Chan, Isobe and Beamish, 2007).

According to the real options theory, joint venture as an optional form of FDI to enter a new and risky market (Kogut, 1991, Reuer and Tong, 2005). In this case, termination of the joint venture means the realization of the opportunity, which makes the determination a sign of success (Kumar, 2005). Researchers found that IJVs with strong financial and market performance are less likely to be terminated and IJVs that are terminated are often performed poorly in the market (Geringer and Hebert, 1989, Lu and Xu, 2006). Researchers also recognise the unstable, fragile, unpredictable and potentially costly nature of joint ventures as a form of commercial alliance (Bergquist, Betwee & Meue., 1995, Morris & Hergert, 1987). Therefore, one of the potential outcomes of the removal of all protection policies and restrictions is that foreign parent firms will likely to take-over the joint ventures (Berg and Friedman, 1978). This literature argues that, past studies mostly overlooked and underestimated the clearest and strongest objective of IJV itself, its own survival, which can be in conflict with its parent's objectives. This thesis will challenge the view that joint venture is a temporary business model. In the case of Chinese automotive industry, the international joint ventures are generally renewed every two to three decades (Nam, 2011). In the foreseeable future, joint ventures in the Chinese automotive industry may well be permanent business entities as long as the Chinese communist party is in power and this will certainly challenge the existing literature on joint venture performance and management.

In summary, all past joint venture performance measurement has its advantages and disadvantages. Each of these measurements presents an important aspect of the joint venture. This thesis integrates these measurements together to analyse international joint venture performance in the Chinese automotive industry. In the next section, we will review the determinants of these IJV performance measurements.

2.2 IJVs performance determinants

After identified key subjective and objective IJV performance measurements, it is time to analyse different factors recognised by scholars that can potentially affect these performance aspects. In the past literature, researchers only focused on the relationship between selected determinants with particular performance measurement. This only provides partial and biased view in IJV performance and management research (Ren et al. 2009). This thesis comprehensively reviews the relationships between performance determinants and performance measurements to gain a holistic understanding of the international joint venture literature and the role of its parent firms. Ren and colleagues in 2009 have reviewed the IJV performance determinants of 54 past studies of IJV performance. They have summarized ten key determinants that could potentially affect the performance of IJVs. This thesis extends this theoretical framework by putting these performance determinants under the contexts of the FAW-VW. In the following sections we will analyse and evaluate these determinants.

2.2.1 Commitment and Bargaining Power

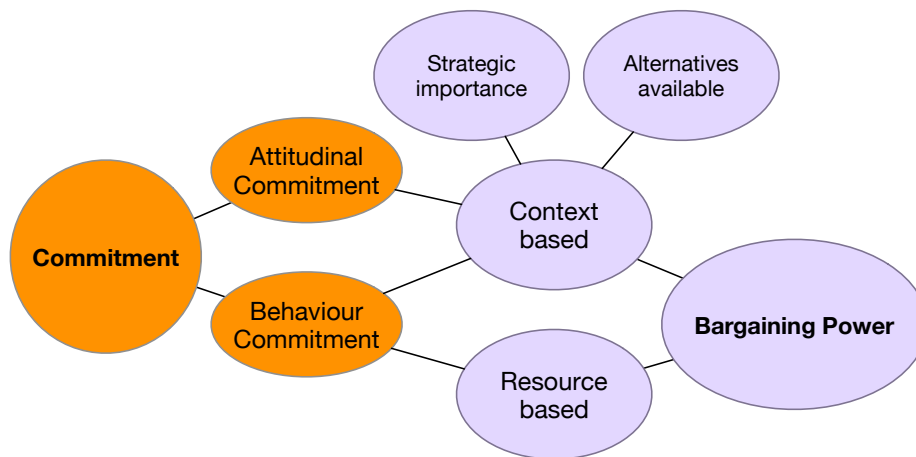
Commitment is defined as the willingness of parent firms to exert efforts to achieve organisational goals through the IJV (Mohr and Spekman, 1994). There are two types of parent firm's commitments to IJV, one is behavioural commitment and the other one is attitudinal commitment. Behavioural commitment is defined as resources contributions to IJV, which can be enforced by contracts between the partners, and/or contributions that are not included in the contract (Cullen, Johnson & Sakano, 1995). Attitudinal/psychological commitment is defined as expression of attention and feelings of obligation to the IJV, which is beyond the IJV contract. Researchers have found a positive relationship between commitment and IJV performance (Glaister and Buckley, 1999, Demirbag and Mirza, 2000, Isobe et al., 2000, Robins et al., 2002, Kwon, 2008, Nakos and Brouthers, 2008). Behavioural commitment includes capital investment, technology transfer, as well as managerial involvement. High behavioural and attitudinal commitment expresses partner's confidence and long-term interests in the IJV, which helps improving IJV's performance in all aspects (Nakos and Brouthers, 2008). More investment from the parent firms means more resources to the IJV and a better chance for the IJV to perform well financially (Child and Yan, 2003). More attitudinal commitment means more managerial involvement from the parent firms and a better chance to gain knowledge transfer through the IJV (Tsang, 2002). Past studies also showed that high commitment could reduce opportunistic behaviour and thus reduce the transaction costs, which help to improve the survival rate of the IJV (Mohr and Spekman, 1994). It is important to recognise and distinguish the differences and interactions of behavioural and attitudinal commitment as they affect different dimensions of IJV performance. These two types of commitment also interact with each other, for example, high behavioural commitment often led to high attitudinal commitment, as larger investment demands more attention from parent firms. High attitudinal commitment also led to high behavioural commitment as the importance of IJV led to the willingness of parent firms to invest. Therefore, to understand the effect of parent firm commitment on IJV performance, researcher must understand the relationship between the two types of commitments.

As discussed in previous section, the IJVs in the Chinese automotive industry are "forced marriages". Due to restrictions and the high import tax of whole car, which was 200% before China joined the WTO in 2001 and the whole car import tax gradually reduced to 25% import tax plus 14% VAT in 2015 (General Administration of Customs of the People's Republic of China, 2015), it was hard for MNEs to sell cars in China through exportation from the 1980s to 2000s. Finding a reliable indigenous partner to form a joint venture was the only way to gain access to the market (Roehrig, 1994). Previous studies recognised the importance of partner selection process. Ideally, MNEs is looking for an indigenous partner in healthy financial state, with complementary capabilities, political connections and not wanting to turn into a future competitor (Porter and Fuller, 1986, Buckley, Glaister & Husan 2002). However, not only that such ideal SOE partner does not exist in the 80s and 90s, when most of the international carmakers entering the Chinese market in the 80s and 90s, they had very limited choice in term of selecting their indigenous

partners (Buckley, Clegg & Tan, 2003). According to Kogut, reducing the transaction costs is one of the main divers to internationalise firm’s production activities. The information cost of finding the right partner is predetermined and the negotiation costs of forming the IJV is high, given the lack of choice over potential partner, and the requirements for technology transfer (Beamish, 1985). Under this context, the monitoring costs including the monitoring of daily operation and management were likely to be high (Beamish & Banks, 1987).

It is important to consider the interactive effects between commitment and other IJV performance determinants (Cullen et al., 1995, Lin, 2005, Nakos and Brouthers, 2008). Commitment is closely linked with bargaining power, as bargaining power is generally determined by the parent firm’s resource commitment and the strategic importance of IJV to the parent firm (Yan and Gray, 2001a, 2001b). There are two types of bargaining power recognised in the joint venture literature, resource based power and context based power. Resource based bargaining power is generated by parent firm’s contribution of resources that include capital investment, technologies and managerial expertise to the IJV. Context based bargaining power has two elements, one is the alternative available to the parent firm and the other one is the strategic importance of the IJV to the parent firm (Barden, Steensma & Lyles, 2005). Yan and Gray in 2001 argued that bargaining power, especially the context based bargaining power is particularly important at the IJV negotiation stage. As one parent firm has limited alternative choice and/or has strong dependence on the joint venture, this parent firm will have weaker contexts bargaining power compare to the other partner. However, if a parent firm is strongly dependent on the IJV, it is likely to increase its contributions to the IJV and thus gain higher resource based bargaining power, which will then balance off its weaker context based power. Following this logic, Isobe et al. in 2000 found that higher the strategic importance of the IJV to MNE parent firm, the more likely the MNE to contribute to technology transfer, that will also increase the resource based power of the MNE partner. Figure 8 summarises the relationship between joint venture partner commitments and their bargaining power based on the past literature reviewed.

Figure 8 Partner Commitments and Bargaining Power



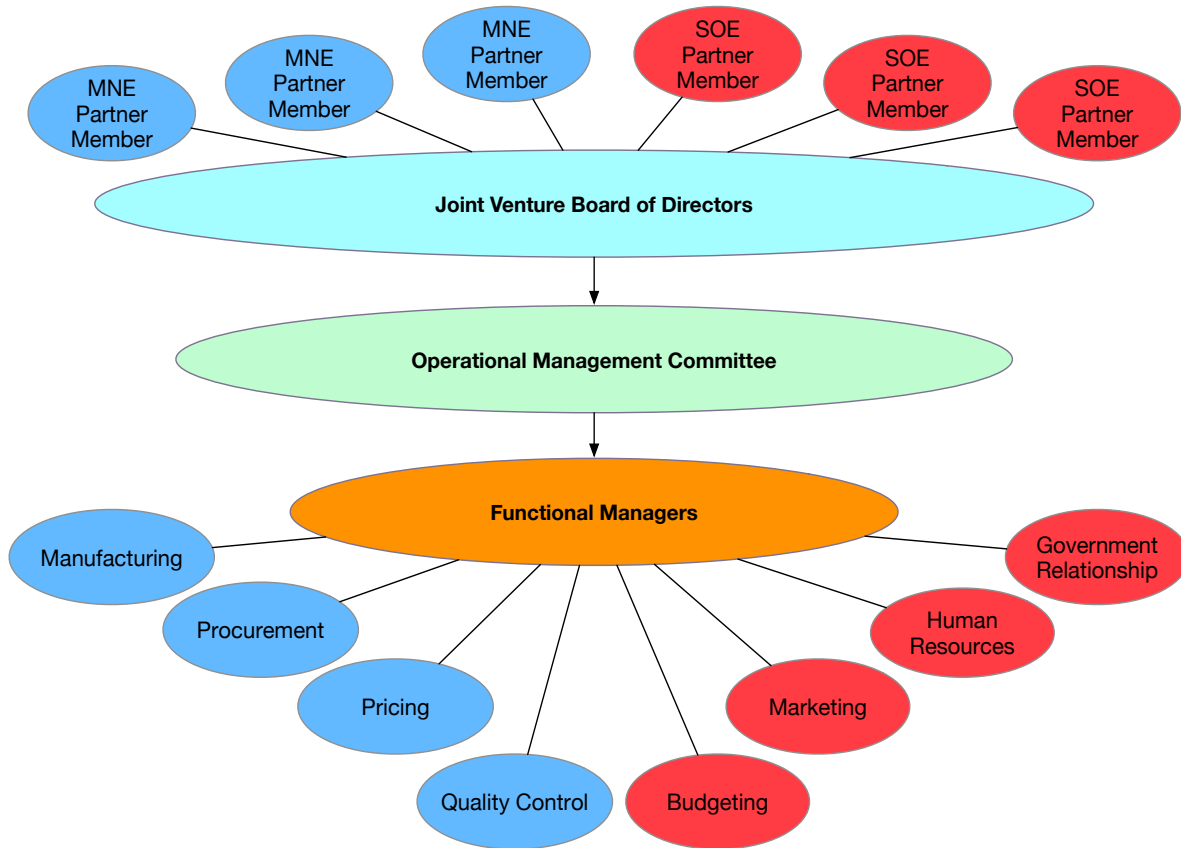
Past literature also recognised that bargaining power is closely related to the control of IJV. Parent company with stronger bargaining power is likely to have more control over the IJV (Yan and Gray, 1994, 2001a). More control of one partner is likely to direct the IJV to perform more towards the goal of the controlling partner (Killing, 1983). Researchers argued that after the negotiation stage, the context based bargaining power of the partner will fade away and resource based bargaining power will be more important in determining the controlling partner (Ren et al., 2009). In the context of international joint ventures in emerging market, researchers found that MNEs can achieve their own performance goals and help the indigenous partners to meet their learning objective by sharing their managerial knowledge and technology knowhow (Brouthers and Bamossy, 2006).

This thesis challenges some assumptions and conclusions made in the existing literature of joint venture partner commitment and bargaining power in the context of the Chinese automotive industry. A major Chinese state owned car manufacturer usually formed numeral IJVs with many MNE partners, and a major MNE usually formed numeral IJVs with many Chinese SOE partners. Therefore, the context based bargaining power still plays an important part after the joint venture contract is signed. The power struggle and negotiation process is constantly on going and firms often found that the real negotiation starts after the contract is signed (Mann, 1989). Barden and colleagues in 2005 recognised the moderating effect of resource commitment on IJV control structures and partner conflicts. Bargaining power and contribution constantly changes, MNE with its technologies and managerial knowledge might bring more bargaining power at first, but with SOE and IJV absorbed the knowledge and technology, MNE will become less powerful. To maintain a constant balance of power, all partners must find a stable structure of power sharing. This thesis will challenge the existing literature of parent firm's commitment in two aspects: one is the relationship between commitment and parent firm's satisfaction and goal achievements. Researchers believe that high commitment will lead to high parent firm's satisfaction and goal achievements (Tsang, 2002). However, high commitment may also increase the threshold of parent firm's satisfaction, as parent firms may expect more in return for their investment. This thesis will challenge the existing literature and argue that high parent firm commitment and attention do not always have positive effects on IJV performance. If parent firms are monitoring the IJV closely on daily bases, it will reduce the independence of the venture. The past literature largely ignored the bargaining power of the IJVs. As both parent firms increase their dependence on the IJV when IJV perform strongly, the IJV can become irreplaceable and hence have strong bargaining power as an individual entity. The independence of joint ventures and the increasing bargaining power of the joint ventures are understudied.

2.2.2 Control of international joint ventures

The control and management of IJV is an important part of the joint venture literature (Hoang and Rothaermel, 2005, Isobe, Makino & Montgomery, 2000, Luo, 2001, Tong, Reuer & Peng, 2008). The control of IJV is defined as the amount of decision power of each parent firm to influence the IJV to achieve its objectives (Killing, 1983). There are many different levels and types of control, such as controls over corporate structure design, operational procedures design, key strategic decisions and the IJV daily operations (Yan and Gray, 1994). Researchers have summarised different types of control in three categories: the controls of performance, process and social (Aulakh, Kotabe & Sabay, 1996). Beamish found that the instability rate of IJVs in less developed countries is significantly higher. It could be caused by the conflict of interest between IJVs and their parent companies and the classic issue of parent control and autonomy (Stopford & Wells, 1972, Franco, 1971, Holton, 1981). Researchers have identified various factors that can potentially influence joint venture performance such as cultural distance, trust, ownership, control (Beamish, 1993, Li, Lam & Qian, 2001, Bivens and Lovell, 1966, Madhok, 1995a, 2006), the possibility of knowledge transfer and the challenge of knowledge management and protection (Lyles and Salk, 1996, Tsang, 2002, Aguilera, 2006). Researchers are interested in studying the moderating effect between control and performance with other factors such as partner trust (Fryxell et al., 2002) and resources commitment (Barden et al., 2005). Researchers are also interest in determine the relationship between control, ownership and IJV performance and find the best IJV practicing model. Researchers have found contracting results in their studies, some argued that shared parent firm control over the IJV results in better performance (Yan and Gray, 1994, Steensma and Lyles, 2000), some argued that IJVs with split control performs better than IJVs with shared and dominant control (Choi and Beamish, 2004). The other types of IJV control are dominant control by one partner and independent management from all parent firms (Geringer and Hebert, 1989). These two types of control are less common in practice compare to the shared and split control modes. As the result of failing to agree on a desirable control model, researchers have adapted a contingency view of the effects of parent control on IJV performance. The great financial success of the automotive IJVs in China may shed some light on this debate. Figure 9 shows the typical management and control structure of an automotive IJV in China. It was drawn based on the primary and secondary research of this thesis. It is also confirmed by various studies on IJVs in the Chinese automotive industry (Zhao, Anand & Mitchell, 2005, Nam, 2011, Li, Tang, Okano & Gao, 2013).

Figure 9 Structure of Management and Control in a typical automotive IJV in China



As shown in Figure 9, the automotive IJV in China often have a mixed managerial structure of both shared and split control between partners. Under a 50/50 shareholding structure, which is the most common ownership structure among IJVs in China, the board of directors is split in half. These directors are assigned by SOEs and MNEs partners, the role of the board is to set long-term and short-term strategies (often set by MNEs), negotiate with both parent firms and appoint and monitoring operational managers. Operational management committee assign functional managers to different departments based on the partner they represent. Production related departments such as procurement, production, pricing and quality control are controlled by the MNE assigned managers. HR, government relationship, budgeting and sale are generally controlled by SOE assigned managers. Therefore, power is shared at the top management level of the IJV and the departments are split controlled by managers assigned by partners. This is power sharing structure is the result of constant conflicts and negotiations. Past studies often overlooked the history and on-going construction process of the IJV control mechanism. This process of negotiation and struggles to control the IJV is as valuable as the result of IJV performance, because it can help us to understand the evolutions of joint ventures, the Chinese SOEs and MNEs in China. This thesis states that the brand of the product that IJV produces is the most dominating factor of who controls the joint venture. All business organisations are designed to serve its final product. Although MNEs are minority shareholders in the Chinese automotive IJVs, all IJV produces car under the

brand name of the MNE partners. FAW-VW produces Volkswagen models, SAIC-GM produces GM models, SAIC-VW produces VW models and Beijing-Hyundai produces Hyundai models. This arrangement naturally gives MNE partners the ultimate control over the manufacturing processes of the IJV, which the SOEs are eager to learn from. Therefore, the Chinese government encouraged and enforced IJVs to develop its own brands in addition to its production of the MNE brands after 2008. We will elaborate on the IJV power structure and IJV indigenous brand policy in later chapters. Past studies overlooked the desire of the IJV as an individual entity to control its own fate and daily operation. Like any other business entity, IJV is operated and managed by individuals with their own interests. Although, the top IJV managers are appointed by the parent firms, the mid-level managers and engineers are employed by the IJV.

The shared-split control management structure of the IJV in the Chinese automotive industry is proven to be financially successful. It is the result of constant negotiations and struggles. The control of IJV is embedded in the brand identity of its product. The managers, especially midlevel managers and engineers are relatively independent to the control of parent firms. These employees' loyalty and the sense of belonging could determine which partner controls the IJV.

2.2.3 Conflict, resolution mechanisms and organisational justice

Conflict in organisations is defined as “overt behaviour arising out of a process in which one unit seeks the advancement of its own interest in its relationship with others” (Schmidt and Kochan, 1972, p.363). Researchers have identified two different types of conflicts within organization, task conflict and relationship conflict (Dirks and Parks, 2003). Task conflict refers to views and opinions clashes, debates and arguments around a group-working task. Relationship conflict refers to personal conflicts, negative feelings including angers, frustrations and aversions between individuals. Researchers believe that task conflicts are useful to create a positive joint venture performance (Jehn, 1995, Jehn and Mannic, 2001). Controlled task conflicts means the freedom of safely express different opinions and ideas which helps to improve the decision making process of the joint venture. In the other hand, relationship conflicts have negative effects on organizational performance. It is important to distinguish the two types of conflicts as they have opposite effects on IJV performance (Li and Hambrick, 2005). However, it is not always easy to distinguish and measure different types of conflicts, as people are often reserved with their individual feelings especially if that individual is still working in the organisation. Conflict also has different meanings to individuals from different national and corporate cultures (Tinsley and Weldon, 2003, Ren and Gray, 2009). There are different levels and aspects of conflicts within the IJV. Researchers found that conflicts between parent firms can be transferred into the conflicts within the IJV (Li and Hambrick, 2005). Cultural differences within the joint venture can also be transferred into relationship conflict (Lau and Murnighan, 1998). Encourage workers to work and socialise within multicultural teams is thought to be an effective way to reduce the levels of conflict within IJVs (Ren, 2008). Researchers have summarised the main reasons behind emerging conflicts in IJV as

the difference between mistrust, cultural differences, and clashes of personalities and conflict of interests (Ren and Gray, 2009). Some conflicts can be solved with better understandings of each other's views and cultures. However, some conflicts of interests cannot be resolved easily, such as conflicts between different departments. The past literature often overlooked the longitudinal changes of conflicts within the IJV, which is valuable to understand the evolutions of international joint venture management in China. Past studies also overlooked the conflicts within the parent firms and the effects of parent firms' internal conflicts to IJV.

The process of solving conflicts and overcome the negativities of conflicts require appropriate resolution mechanisms. Conflict resolution mechanisms are designed to avoid and minimize the negativities of conflicts within the IJV. Such mechanisms exist within the IJV formally and informally. It can be in the form of managerial techniques or problem solving procedures. Considering the complicated nature of international joint venture, conflict arises inevitably and having efficient conflict resolution mechanisms is crucial to IJV survivals (Lu, 2007). With mechanisms including joint problem solving and constant negotiation, conflicts can be beneficial to the IJV development. These resolution mechanisms are neglected in the current IJV literature (Ren et al., 2009). We believe the key of conflict resolution mechanism is to find the balance of power in the IJV. This thesis is interested in how these resolution mechanisms emerge from experiences.

To fully understand and examine the conflicts within IJV and the effectiveness of conflict resolution mechanisms, we must understand the causes of relationship conflicts within the IJV. Relationship conflicts often arise from organizational injustice or perceives of injustice. Organisational justice is defined as the extent to which people perceive fairness of organisational events within the organisation (Greenberg, 1987). Greenberg described organisational justice in three forms: distributive justice, procedural justice, and interactional justice. Distributive justice means the perceived fairness of decision outcome such as profit distribution, resources distribution and salary. Procedural justice means the perceived fairness of the decision making process. Interactional justice means the perceived fairness of how decision outcome is communicated and enacted by the management, such as treating workers with respect and dignity (Greenberg, 1993). All three forms of justice are interrelated, procedural justice is an important part of distributive justice and interactional justice, as the fairness of outcome is a result of fair and transparent decision making procedure. Organisational justice also helps to build trust between partners (Luo, 2008, Robson et al., 2008) and reduce the negative impact of high cultural distance (Luo, 2005). Researchers found that all three forms of justice have positive effect on IJV financial performance (Luo, 2007a). It is logical to assume that organisational justice also have a positive impact on other IJV performance dimensions such as the survival rate and overall satisfaction. However, to establish fairness and justice in IJV, it is important for parent firms to agree on what is organisational justice, which is a challenging task in practice. Justice is a subjective term that is strongly influenced by culture and individual/collective experiences (Cohen, 1991, Davidson and Friedman, 1998).

2.2.4 Trust and Cultural Distance

“Trust” is defined as “believe in the reliability, truth, or ability of, allow someone to have, use, or look after someone or something of importance or value with confidence”. The term “trust” in business and management research is commonly defined as one’s willingness to rely on another party’s actions in a situation involving risk and uncertainty (Mayer, Davis & Schoorman, 1995). This thesis defines “trust in IJV” as one partner’s expectations of other partners to act in the best interests of the IJV, and such expectation is built on mutual understanding and perceived fairness. Trust is the foundation of any human cooperation, and is particularly important to IJVs. Trust is structured by the IJV contract, but goes far beyond the contract. Only with sufficient amount of trust, partners are willing to invest financial capitals, technologies and managerial expertise in the joint venture (Nakos and Brouthers, 2008, Luo, 2002a). Therefore, researchers found a positive relationship between trust and IJV performance (Luo, 2001, Brouthers and Bamossy, 2006, Ng et al., 2007, Robson et al., 2008). The desirable social control aspect of IJV refers to informal control mechanisms such as personal relations, informal communications and information exchange, which is only possible through sufficient amount of trust within the organisation (Fryxell et al., 2002).

Like other performance determinants, there are different types and levels of trust in IJVs, which may change over time. Trust can be personal, inter-group, inter-department and inter-organisation (Bonoma, 1976). It is important to apply a multilevel approach to study trust in IJV (Currall and Inkpen, 2002). Trust between partners and the IJV can be affected by external factors such as changes in the market, political and social environment and the economy (Luo, 2002a, Krishnan et al., 2006, Ng et al., 2007, Kwon, 2008). The element of trust is the foundation of a successful IJV partnership (Muthusamy & White, 2005, Madhok, 2006). However, Chinese companies were often found to mislead their potential partners over their economic circumstances (Child, 2000, Luo, 2008). It is important to understand the changes of trust between partners and within the IJV over time and how trust affected the construction of organisational structure and institutional design. This thesis will review the archival data on trust, including company memos and managerial biographies and capture the evolution process of trust in IJVs in China. Through reviewing the historical data, this thesis will present a more accurate description of trust in IJVs.

In summary, trust in IJV is about mutual expectations and cultural distance in IJV is about mutual understanding. Culture is regarded as one of the most important IJV performance determinants by researchers (Brouthers and Bamossy, 2006, Lu, 2006). In the IJV literature, researchers often analyse cultures of the parent firms on the national and organisational levels (Sirmon and Lane, 2004). National cultural differences could have various effects on IJVs (Luo and Shenkar, 2002, Lu and Lee, 2005, Anh et al., 2006, Lu, 2007). There are mixed results of how cultural differences influence IJV performance (Salk and Shenkar, 2001). Some researchers found that national cultural differences have negative impacts on IJV performance, as cultural differences create misunderstanding and miscommunication, especially in the IJV negotiation stage (Simonin, 1999).

Cultural differences could lead to low level of trust (Luo, 2001) and high IJV instability rate (Makino et al., 2007, Meschi and Riccio, 2008). Parent firms may have different understandings of IJV performance and IJV goals due to the cultural differences (Yehekel et al., 2001). However, other researchers argued that cultural differences could potentially increase communication and enhance collaboration as one partner may admire the other partner's cultures (Park and Ungson, 1997). If parent firms can overcome their cultural differences and enhance their cultural understandings, it can increase the trust between partners and lead to better performance (Brouthers and Bamossy, 2006).

Some researchers stated that differences in organisational cultures are more likely to affect IJVs performance than differences in national cultures (Lyles and Salk, 1996, Pothukuchi et al. 2002, Sirmon and Lane, 2004, Aguilera, 2007). Organisational culture refers to the collective values, norms and principles that guide the behaviours of the members of the organisation (Needle, 2004). Organisational culture influences the way firm operations (Sirmon and Lane, 2004). Organisational culture differences are likely to clash within the IJV because IJV is an abnormal type of organisation. According to the past literature, organisational culture differences can have serious negative impacts on IJV operation and performance, such as distrust, confusions, goal differences, misunderstandings, miscommunications, conflicts of values and managerial style (Fey and Beamish, 2001, Pothukuchi et al., 2002, Yehekel et al., 2001). Therefore, the greatest challenge to any IJV to survive and perform well is to build an independent identity, which is constructed and accepted by its parent firms. This thesis studies the FAW-VW in the context of China. This thesis argues that trust and cultural understanding is built into the institutional design of the IJV.

2.2.5 Cooperation and Goal Congruity

Cooperation refers to the mutual forbearance process of resources allocation that creates mutual benefits (Buckley and Casson, 1988). Researchers considered partner's cooperation as a critical determinant to IJV's success, due to the challenges arise from cultural differences and other confliction factors in IJV (Demirbag and Mirza, 2000, Luo and Park, 2004, Anh, Baughn, Hang and Neupert, 2006, Zhan and Luo, 2008). Stable partner cooperation can improve the IJV's financial performance (Luo, 2002b). It can also increase the parent firm's satisfaction (Gong et al., 2007).

The foundation of partner cooperation is based on their goal congruity (Beamish and Banks, 1987, Hill et al. 1990, Dunning, 2008). Goal congruity refers to the extent of similarities that SOEs and MNEs shares in their strategic objectives and the future directions of the IJV. Therefore, goal congruity is an important positive IJV performance determinant (Kogut, 1988). High goal congruity have positive impacts on IJV performance because it can enhance trust between partners (Luo, 2001), increase IJV efficiency (Yehekel et al., 2001) and improve parent firm's satisfaction

(Boateng and Glaister, 2002). Low goal congruity could lead to opportunistic behaviours (Luo and Park, 2004) and conflicts (Luo, 2001).

We have reviewed and summarised from the previous literature, the five aspects of IJV performance and ten important IJV performance determinants. To understand its SOE parent company. In the following section, we will review the literatures on institutional theory and state owned enterprise.

2.3 Institutional theory and state owned enterprise

There are two common themes of explanations of SOE legitimacy. One is the market imperfections argument: that is when the market cannot allocate resources efficiently, oversupply or undersupply, failure to satisfy market demand or overpricing, information asymmetries and natural monopolies. Under these circumstances of market failure, government has three options to adjust: through taxation, regulation or provide the goods itself through SOEs (Levy, 1987, Lawson, 1994). All private businesses in China were nationalized after 1966. The economic reform since 1978 replaced the communist ideology with a milder version of the combination between socialism and nationalism ideologies called “socialist market economy with Chinese characteristics”. However, SOEs are still recognised as the main economic entity. According to the proclamation of the 3rd Plenary Session of 18th CPC Central Committee in 2013:

“The plenum pointed out: The basic economic system with public ownership playing a dominant role and different economic sectors developing side by side is an important pillar of the socialist system with Chinese characteristics and is the foundation of the socialist market economy. Both the public and non-public sectors are key components of the socialist market economy, and are important bases for the economic and social development of China. We must unswervingly consolidate and develop the public economy, persist in the dominant position of public ownership, give full play to the leading role of the state-owned sector, and continuously increase its vitality, controlling force and influence. We must unwaveringly encourage, support and guide the development of the non-public sector, and stimulate its dynamism and creativity. It also points out that it is necessary to improve the property rights protection system, vigorously develop a mixed economy, promote establishment of the modern corporate system in state-owned enterprises, and support the healthy development of the non-public sectors”.

As the statement suggested, SOEs are associated with the protection of the national interests from the “commanding heights” (Jones and Mason, 1982, Rodick, 2007). As the Chinese economy grew and Chinese SOEs are becoming increasingly active in the global economy. Scholars and analyst are yet to conclude if past cliché of SOEs still applies to what seems like a new breed of Chinese SOEs, especially when they are backed up by strong market performance, increasing international investment and cooperation with MNEs (Cuervo-Cazurra, Inkpen and Musacchio 2014). This

thesis wants to explore the institutional environment of the FAW. How does it compare to its highly efficient market successful joint venture?

There is a strong developing trend of research interests in studying the Chinese SOEs around the world both academically and professionally. Western MNEs and governments are interested in understanding the globalisation strategy of Chinese SOEs. Academically, the research of Chinese SOEs is enriched by the integrating institutional theory (Cui and Jiang, 2012, Cuervo-Cazurra et al., 2014, Liang, Ren & Sun, 2015). Researchers are eager to understand Chinese SOEs strategic making process and its relationship with the government as its owner (Li, Cui & Lu, 2014, Meyer, Ding, Li & Zhang, 2014, Liang et al., 2015).

As I read through the JIBS special issue on government ownership of multinational companies. I have found some serious flaws about the current research methods on Chinese SOEs. In particular, with Liang and colleagues 2015 study on state control in the globalization of the Chinese state-owned enterprises.

Liang and colleagues claimed there are two types of state control mechanisms that influence SOEs strategic decision-making: executives' political connections and state ownership control. These two mechanisms represented the evolving relationship between state and SOE managers that can be explained through the integrated agency theory with institutional analysis. Researchers stated that SOE institutional environment could be administrative and market-oriented. The manager connection based control mechanism emerged under the administrative institutional environment. It means the state indirectly control the SOEs through the manager's social and psychological contract with the state.

Manager political connections are measured as "a dummy variable that equals 1 if the top manager worked in the government, government-related agencies, or the military, or was/is a member of the national, provincial, or municipal Congress, and 0 otherwise." Other studies also used similar measurement (Faccio, 2006, Fan, Wong & Zhang, 2007, Li and Qian, 2013). The ownership based control mechanism emerged under the market-oriented institutional environment. It means the state directly control the SOEs through government ownership and voting rights on corporate decision-making process. It was measured as the proportion of the firm's total shares owned by the central or local government or authorities (Cui and Jiang, 2012, Musacchio and Lazzarini, 2012). State ultimate control is another alternative measurement of state control that is measured as "a dummy variable that equals 1, if the actual ultimate controller (based either on ownership or voting rights) of the firm is the state or governmental authorities, and 0 otherwise (Inoue, Lazzarini, & Musacchio, 2013, Musacchio and Lazzarini, 2012)". The market-oriented institutions rely on modern property rights institutions. Liang and colleagues claimed that through the split-share structural reform in 2006 that extensively transferred the state shares in Chinese SOEs to private investors, Chinese listed SOEs transformed from the manager political connections mechanism to state ownership control mechanism (Haveman and Wang, 2013). The study aimed to test the effect

of this transformation of control mechanisms to the SOEs globalisation decisions and the degree of their globalisation. The decision of globalisation is measured as a “dummy variable that equals 1 if the firm is involved in globalization during the first step and 0 otherwise (Sun, Peng, Lee & Tan, 2015).” The degree of globalization (DOG) is measured as “an index, which takes the average of three firm-level globalization indicators: (1) the ratio of the company’s foreign sales to its total sales; (2) the ratio of the company’s foreign assets to its total assets; (3) the ratio of the number of the company’s overseas branches and subsidiaries to the number of the company’s total branches and subsidiaries (both domestic and foreign). This measure depicts the extent of geographical-operations dispersion across countries (Stopford and Wells, 1972) and is widely applied in globalization research (Contractor, Kundu, & Hsu, 2003; Carpenter, Sanders & Gregersen, 2001; Gomes and Ramaswamy, 1999).”

To test their theory, Liang and colleagues used “data on all non-financial Chinese firms listed on the Shanghai and Shenzhen Stock Exchanges, of which SOEs account for more than 80% of total market capitalization.” The sample size is 17,272 firm-year observations of 2,394 listed firms from 2001 to 2011. These observations were split into two periods, the pre-reform period from 2001 to 2006 and the post-reform period from 2006-2011. They concluded that the state ownership control mechanism has a stronger impact than managers’ political connections mechanism on SOEs’ globalization after corporate governance reform. Managers’ political connections function more in the globalization decision-making process rather than the degree of globalization decisions, especially before governance reform. State ownership control functions more in the degree of globalization decisions rather than the globalisation decision especially after governance reform. The background of the period studied was that the “Go Global” policy was launched by the Chinese government since 2000 to encourage Chinese SOEs to globalise. As the result, Chinese outward investment drastically increased after 2007 (Lin and Milhaupt, 2013, Liang et al., 2015).

An alternative explanation of the research findings could be the global financial crisis in 2007, which the study completely overlooked. Prior to 2006/07, there was limited number of Chinese firms invested abroad, and a high proportion of these firms are SOEs, which means strong manager political connections and more open to the market with lower government shares. After 2007, there was a great leap in numbers of Chinese listed firms investing abroad, which diluted the proportion of SOEs with strong manager political connections. The DOG as a ratio measurement also discriminates against large SOEs, with strong manager political connections and lower state ownership as public listed firms.

A more serious problem was with the common quantitative methods used by the 2015 study. Top manager’s political connection is a very complex and delicate factor that is impossible to accurately quantified. The common quantitative method to measure Chinese manager political connection is based on top manager’s curriculum and membership of the National Congress. In 2011, there are 63 chairman and CEOs of Chinese listed companies among 2,987 members of the National People’s Congress (NPC) and 20 among 2,267 members of the National Chinese People’s

Political Consultative Conference. The total value of these 83 firms is nearly 6 trillion RMB (about 6 hundred billion GBP), which are 21.1% of the total value of the Chinese stock market (China Economic Weekly, 2011). Private business owners can also be members of the Congress at National, Provincial and Municipal levels. Congress membership in China is a form of social status and recognition. The two main functions of the People's Congress in China are proposing and approving laws, and vote in leadership elections (although often predetermined, getting a high vote matters to official's future promotions) at national, provincial and municipal levels. To managers of SOEs and private businesses, it is a channel to build political connections and influence policymaking. Therefore, being a member of the Congress shows the manager's political connections rather than a control mechanism of the business strategic decision-making process.

The same flaw also applies to the top SOE manager's curriculum observation, almost all Chinese SOEs top managers have prior experience of working in the government or was promoted within the SOE, it does not necessarily mean the SOE operations would be influenced by the manager's prior posts. There are 112 centrally administered SOEs that are managed by the SASAC (State-owned Assets Supervision and Administration Commission). There are 53 companies among these 112 centrally administered SOEs that are vice-ministerial level companies and the top managers of these 53 companies are appointed by the ODCCCPC (Organization Department of the Central Committee of the Communist Party of China) and the other 59 companies' managers are appointed by the SASAC. The appointed managers would maintain their government rankings with double identities as business managers and government officials. For example, FAW and Dongfeng are the only two vice-ministerial level automotive companies in the China and the presidents of these two companies are ranked as vice-ministerial level officials in the Chinese government. The regional Chinese SOE's top manager is appointed and managed through the regional state-owned assets supervision and administration commission and the organisation department of the provincial or municipal government. The listed SOE board would approve the manager's appointment as the state has the majority ownership and voting right. The reality is more complex than the procedure. There are strong organisational/official and individual/private ties between the SOE and the government. A top manager of a SOE like any other top government officials is part of a massive political/commercial network. These political connections would certainly influence SOEs decision-makings, but these influences are not always official and sometimes not necessarily in the best interests of the SOE or the state. Therefore, top manager's political connection measured in these quantitative studies is not the real control mechanism of Chinese SOEs.

According to Liang and colleagues, the Chinese SOE fundamentally changed after split-share reform in 2006. Before governance reform, a weak home-country institutional environment makes managers behave more like politicians because they are directly appointed and closely watched by state administrators (Chang and Wong, 2004; Ralston, Terpstra-Tong, Terpstra, Wang, & Egri, 2006). Consequently, SOE managers' interests are more aligned with those of the state (Boisot and Child, 1988). After the 2006 reform, SOEs achieved "partial separation of ownership and control (such as dispersed state ownership)" and "SOE managers are more often elected through

shareholder meetings and behave like professional managers, which means they are more economically incentivized” (Liang et al., 2015). The 2015 study is tunnel visioned, as the researchers constructed their assumptions on the result of the SOE reform, but did not present any evidence to support these changes they claimed. They are blindly optimistic about the 2006 SOE split share reform, which was just an ordinary year of the long SOEs reform in China. Reviewing the JIBS 2015 study showed that we are only scratching the surface of understanding Chinese SOEs here. If quantifying political connection is not possible, scholars should stop try to decelerate this fact.

This thesis will use a qualitative method to explore the institutional environment of FAW and the power relations mechanisms between FAW and the central government, FAW managers, FAW president and Party leader. It is a much more accurate reflection on reality.

As discussed previously, there are both formal and informal constraints within the institutional frameworks. Peng and Heath have reviewed some of institutional features of the Chinese SOEs in 1996 as before and during the economic transitions period. The two key features of planned economies are the “comprehensive use” of central economic planning and bureaucratic control. A typical state owned enterprise would have excess physical resources, limited financial resources and limited managerial resources. There are lack of property rights protection and lack of strategic factor markets. In 1996, China shares these institutional features with other transition economies in Eastern Europe. However, the key difference is that China remains to be a country that governs by the Communist party, whereas ideology barriers and burdens in other transition economies fades away, China still remains to be a complicated, politically unstable (inner party conflicts) and risky nation for business owners. As Peng and Heath found in 1996, the reform process in China has experienced a great deal of ups and downs, that remains to true in 2015.

Two decades after Peng and Heath 1996 study, we can confirm that the central economic planning feature of the industry has been weakened but not completely gone. There are still policies, regulations and five years plans that show the presence of the government in regulate and control the automotive industry as we reviewed in previous sections. Since 1980, SOEs has been a drain on government resources (Steinfeld, 1998, White, 2000). Post 1990, many mid-size regional SOEs are privatized and those firms that remained as SOEs are mostly given independent status and are largely dependent on their own financial performance. There are strong incentives for SOEs to seek financial and resources independence from the state (Choudhury and Khanna, 2014). The other key feature, bureaucratic control remains strong. However, there has been a different kind of bureaucratic control within the SOEs since 1980. “Factory manager responsibility system” was introduced in 1987 and was widely carried out since 1990. Under this system, party committee is no longer the dominant force of the SOE. SOEs became “independent kingdoms” Control became an incentive for managers; power is an enormous motivator (McClelland, 1976). However, the leadership of SOE is not decided by the market (board) but by the government. State-owned Assets Supervision and Administration Commission SASAC.

To holistically understand Chinese SOEs, including the power structure, the decision making process, the strategic goals and how they are achieved, we must understand the institutional environment of the SOE. The key to understand the institutional environment is to understand the power relations between the state, the SOE, the SOE president and the fellow managers. Liang and colleagues realised the importance of studying the state-manager relations but their approaches failed to answer the question. The underlying assumption of their study is that the most important factor is not the business ownership but the managerial structure. Like many other researchers in this field, they argued that with more independent and business driven managerial structure, the SOEs could be as efficient as private businesses. Here are some scholars who believes in a new breed of Chinese SOEs: *“After governance reform, compatibility between the market-based institutions of the home country and international-governance regimes leads to SOE managers behaving more like professional executives as they are more often elected and monitored by boards of directors (Megginson and Netter, 2001). As a result, SOE managers’ interests are more often in conflict with those of the state, and the information asymmetry between the state and SOE managers is higher, particularly during globalization (Knutson, Rygh, & Hveem, 2011). In such cases, state ownership control is more efficient for the state to curb managerial opportunism and reduce agency costs in these state-owned MNCs under a market oriented governance system (Li & Qian, 2013; Morck, Yeung, & Zhao, 2008). SOE managers also respond to a new institutional regime by conforming more to the ownership arrangement in their globalization strategies so as to better leverage the state’s resource advantages and preferential policies to overcome uncertainties abroad (Li, Cui, & Lu, 2014; Meyer, Ding, Li, & Zhang, 2014). Consequently, the state-control mechanism to influence SOEs’ globalization shifts from relying mainly on administrative orders to relying mainly on market-based orders”* (Liang, et al., 2015)

To fully explain the relationship between SOE managers and the state, we must understand the historical and current institutional environments of the Chinese SOE, to this thesis, FAW. The state is not a single entity, but make up by individuals within numerous interest networks. The key challenge to SOEs and also to its joint venture partners and other firms invest in China is rapidly changing institutional environment in China. In July 2015, the Commission for Discipline Inspection of the Central Committee (CCDI) of the CPC published a document to warn Chinese SOE managers that they are not ordinary business managers. They are under the direct leadership of the CCP and supervised by CPC. This document published by the most powerful disciplinary department of China clearly contradicted to the Liang and colleagues 2015 study. As this document stated, it serves as a hard shove to wake up any dreams of privatization and alternative management mode other than the total control of the Communist Party and all SOE managers must comply with the Party Constitution, discipline and rules. Since 2013, China is undergoing economic and political changes. The new government took a more direct and radical anti-corruption approach and state owned enterprise reform (Chen, 2014). The President Xi Jinping and Premier Li Keqiang in numerous occasions warned against a draw back in economic reform due to the resilience of the “conservative and vested interest groups”. In March 2013, at his first press conference as the new

Premier of China, Li Keqiang compared the difficulty of administrative and economic reform China is facing to “cutting one’s own wrist” (Xinhua Net, 2013). He has repeated this metaphor numerous times since. In February 2014, during his state visit in Russia, President Xi Jinping describe the current economic reform in China has entered the “deep water zone, we can say, the easiest, make everybody happy kind of reform is completed, the most delicious meat are eaten, what is left are hard bones. But it doesn’t matter how hard reform is, we still have to push the reform forward.” (Xinhua Net, 2014). In May 2015, during the 12th meeting of the “central comprehensively deepening reform committee”, President Xi Jinping called for “more reform promoters” in the government. The government needs to promote those officials who “want to reform, plan to reform and know how to reform” (Xinhua Net, 2015). As two most powerful individuals in China continuously emphasizing the difficult of economic reforms, it is clear that there are strong anti- reform forces and the SOE reform is the frontier of the ongoing reform struggle.

In September 2015, the Communist Party of China Central Committee (CPCCC) and the State Council published the long anticipated guideline of “Advisory Guidelines on Deepening the Reform of State Enterprises”. This document will be the most important guidance to Chinese SOE reform in the next decade. It is clearly a product of compromising. The government started to draft this guidance in 2013 and after long negotiations between government departments, interest parties and different political ideologies within the CPC. Therefore, although it comprehensively addressed most the issues around SOEs, there are some key contradictories within the document and it is blurry on the detailed guidance of how to implement its advices.

The key objective of SOE reform is to make SOEs more efficient and market driven, and less bureaucratic. In June 2015, after the 13th meeting of the “central comprehensively deepening reform committee”, CPCCC published the document of “Several Advices on How to adhere to the Party’s Leadership and Enhance the Party Development during the Deepening Reform of State Enterprises”. The CPCCC Advices clearly stated that Party must be in charge of the economy and the SOEs.

The guideline urges SOEs to adapt to a “mixed ownership” reform through the stock exchange market. SOE welcomes private companies to invest in SOEs and help SOEs to improve the return on asset (ROA) rate. According to the FT, in 2014, the average Chinese SOE’s ROA is 4.6%, and the average ROA of the Chinese private company is 9.1% (FT, 2015). However, the guideline also firmly stated that public ownership must remain as the majority entity of the economy and warned against the loss of state assets. This contradictory discourages private business to invest in SOEs due to the potential hazard and risks. It reminds people of the 1955 ‘state-private joint corporations’ reform that eventually lead to the total nationalization of all private businesses in China in 1966 (Wu, 2013). Even if that total privatization is not possible in the modern China, and the guideline also mentioned about keep the promise of protect and support private ownerships. The risk of being accused of “the loss of state assets” is enough to put private business off. Imagine a private

business invest in a SOE, and the investment would become state assets, the profit earned through the SOE is state assets, if there is any dispute in the future, the People's Court is less likely to be on the side of private business owners. The guideline also increases the proportion of SOE's profit turn over to the state from 10% for the automotive SOEs to 30% in 2020.

The guideline suggests that SASAC would withdraw from managing people, affairs and properties to manage capital of the SOEs. The guideline emphasized the importance of empowering the board of SOEs with more control over the business operation and managerial appointment (as suggested in Liang et. al., 2015). However, the top managers are still appointed by the State-owned Assets Supervision and Administration Commission (SASAC) and Central Organization Department, and the board often appointed by the manager and approved by the SASAC. The guideline also suggests a differentiated salary system in the top management of SOEs, salary for managers appointed by the Party will be significantly lower than the managers recruited from the market.

To conclude, this is a summary of the external institutional environment of the Chinese SOEs, which is constructed by mixed and often contradictory regulations, policies and guidelines. This is a fast changing, dynamic and chaotic institutional environment that is hard to capture, describe and predict. This thesis argues that the key and ultimate challenge of any institutional reform is to change the people's mind.

The main reasons for creating the joint venture in China were government requirement and pressure (Teagarden, 1990), and adaptation and information requirements (Beamish and Banks, 1987, Hennart, 1988). The frequency of association with government partners is still very high in China. The use of IJV as a foreign investment mode in China has been very high. In 1990s, researchers have sensed a change in the attitude of the Chinese government to permit and encourage wholly owned subsidiaries (Shenkar, 1990, Teagarden, 1990). As reviewed in previous section, these three characteristics still apply to the Chinese automotive industry. Foreign businesses and the ownership restrictions still exist to whole car manufacturing ventures. Foreign ownership restrictions of automotive suppliers are relaxed.

In the 1980s, over half of the IJV formed in China have a predetermined duration period of 10 years. That means after 10 years, the IJV would become wholly owned by the Chinese SOE. In the 1990s, the Chinese government increased the standard duration of IJV to 15-50 years with no predetermined duration. In the 1980s, 60% of foreign firm had a minority ownership of the IJV in China, 31% had equal equity ownership and 9% had a majority equity ownership (Beamish and Wang, 1989, Engholm, 1990). Researcher predicted that to obtain the political advantages and tax preferential status, foreign firm would maintain their minority equity position (Franko, 1989). As discussed in previous section, IJVs in the Chinese automotive industry have become permanent entities in the foreseeable future. Although ownership restrictions still apply in the Chinese automotive industry, foreign partners are constantly requiring a majority equity ownership to increase profit shares.

The 1993 study predicted that it is extremely unlikely that joint venture in China would ever be autonomously managed because Chinese wants to learn about the managerial skills through IJV. Although foreign firms often have minority or equal ownership, they normally have greater control of the IJV. Researchers found the IJV shared-split control structure effectively divide up control along functional lines, which is the most effective IJV control mode in China (Shenkar, 1990, Teagarden, 1990). As stated in previous section, this thesis argues that the independence of IJV have been neglected by past research. Under the shared-split control structure, IJV managers would act on their own interests, which may not be same with the parent firm's interests. Researchers observed a general dissatisfaction of foreign firms with the IJV performance and lost patience with the Chinese partner and government (Teagarden and Von Glinow, 1990, Shenkar, 1990). In the late 80s, Eastern European markets started to open up to investment, researchers predicted that MNE would prefer to reinvest in these countries with narrower physical, cultural and economic gaps (Von Glinow and Teagarden, 1988, Shenkar, 1990). Beamish predicted that the instability rate of IJV in China would increase because of liquidations, performance problems and government deregulations on ownership restrictions.

According to previous studies, the comparison of performance between MNE's wholly owned subsidiaries and IJVs with indigenous partners showed that multinational companies with intangible assets such as technology and brand would be better off operating as wholly owned subsidiaries than form joint ventures with indigenous partners to avoid opportunism (Hennart, 1982, Chang, Chung & Moon, 2013). Chang and colleagues compared the performance of wholly owned subsidiaries converted from joint ventures to performance of continuing joint ventures after the ownership restriction policy relaxed in China from 1998 to 2006. The conclusion is that there is a "steady improvement in the performance of converted wholly owned subsidiaries as measured by ROA and Operating ROA which far exceeds that of continuing joint ventures" especially in R&D and advertising intense industries, which can be explained from a transaction cost perspective (Chang, Chung and Moon, 2013). They concluded that, wholly owned subsidiaries have superior performance in technology intense industries because wholly owned subsidiaries can "tap into better technologies and brands owned by the parent firm". However, the result can also be explained by that joint ventures with more assets and higher profitable are less likely to be converted, which is contrary to the learning perspective (Hennart, 2009). There is a possibility that the converted companies are generally less profitable with minor assets and not working well with the indigenous parent firm, which explains the dramatic improvement of ROA.

Joint ventures are interesting institutions because of the unique ownership structure. There are two key challenges to IJVs, one is to balance the power and interests within the IJV, and the other one is to adjust to external environments. In order to understand IJVs in China, we need to understand the institutional environment of the IJVs and the state owned parent firms. The foreign and Chinese partners are in the IJV for radically different reasons, making contributions in different realms (Shenkar, 1990). Chinese firms are different from foreign firms in terms of organizational contingencies and institutional constraints; they are also asymmetrical with respect to the strategic

necessity to form an IJV (Beamish, 1993). Most Chinese partners are only quasi-marketed, meaning that they are hybrid between hierarchical and market institutions (Luo, 1997). After nearly three decades, these concerns Beamish raised in 1993 were addressed and MNEs did not withdrawn from the Chinese automotive market. Beamish in 1993 called for greater examination of the reasons for particular IJV characteristics and to explore characteristics associated with the actual management of IJVs. Like many past IJV studies prior and after 1993, these IJV characteristics were summarised from the MNE perspective. The characteristics of the Chinese SOEs were reduced to bureaucratic, eager to learn, lack of absorptive capacity and potentially risky of opportunistic behaviors. However, these characteristics do not explain the great success of IJVs in China and there are many aspects of Chinese SOEs that are unexplored. The Chinese SOEs as the important IJV partners remained largely unknown. In the following section, this thesis reviews the literature on institutional theory and state owned enterprises, and discusses how to these research fields can help us to understand the success of IJVs in the Chinese automotive industry by exploring the identity of SOEs and the institutional environment of the SOEs which is also the institutional environment that MNEs and IJVs operates in.

Institutions are ‘rules, norms and beliefs that describe reality for the organization, explaining what is and is not, what can be acted upon and what cannot’ (Hoffman, 1999: 351). Institutional framework provides the “rules of the game” that a society serves as constraints to regulate economic activities (North, 1990). It is “the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution” (Davis and North, 1971). These set of rules are both formal and informal constraints of individual and organizational behavior (North, 1990). Therefore, the institutional frameworks interact with both individuals and organizations (Powell and DiMaggio, 1991, Scott, 1992). “Both what organizations come into existence and how they evolve are fundamentally influenced by the institutional framework. In turn, they influence how the institutional framework evolves” (North, 1990). North stated that “economic and political models are specific to particular constellations of institutional constraints that vary radically both through time and cross sections in different economies” and “the models are institution specific and in many cases highly sensitive to altered institutional constraints” (North, 1990). Therefore, to study the strategic choice and decision- making process of both the international joint venture and Chinese state owned enterprise as parent firm, we must understand the external institutional environment and internal institutional characteristics of these companies. The tradition of studying these companies with an existing and often “Western” theoretical lens and perspective must be challenged (Peng and Heath, 1996). Researchers have identified the lack of research on the institutional transformation of China and how Chinese institutional environment influences foreign and Chinese business operations in China and abroad (Krug and Hendrischke 2008, Child, Lu & Tsau 2007, Fetscherin, Voss & Gugler 2010). To gain a holistic understanding of these changes in the Chinese institutional environment, we need to look beyond international business literature and extent our research to economic development studies, political economic studies, business history and industrial studies. In the following sections, we will review the institutional environment through reviewing the past literature, policies, regulations and individual

experiences at the national level, the SOE level and the individual manager level. By putting the institutional environment in the context of reality, we can determine the characteristics of the Chinese SOEs.

According to the literature, factors such as geographical and cultural distance are far less significant to the success and failure of FDI in China than the institutional environment constructed by the Chinese government (Shan, 1991, Tse, Pan and Au, 1997, Luo and Peng, 1999, Ellis, 2007). Firms need to adapt to policy changes, government personnel changes and market changes to survive (Scott, 2002, Schneiberg, 2007, Lounsbury and Crumley, 2007). These factors are constantly changing in China and MNEs have to adapt to these changes to survive and thrive (Sun, Tong and Yu, 2002). Institutional entrepreneurship theory explained these changing factors from the market key actor's perspectives (DiMaggio, 1988, Greenwood and Hinings, 1996, Hirsch and Lounsbury, 1997, Garud, Hardy and Maguire, 2007). There are significant advantages of early investors whom adapted and contributed to the institutional transitions to have a better performance in terms of achieving higher profitability and market-share (Isobe, Makino and Montgomery, 2000, Pan and Chi, 1999, Pan, Li and Tse, 1999, Peng, 2003, Shan, 1991, Andersson, Bjorkman and Forsgren, 2005, Johanson and Vahlne, 2009, Kostova and Zaheer, 1999, Meschi, 2004). The performance of IJV is closely associated with the quality of its relationship with the Chinese government (Sanyal and Guvenli, 2000, Dunning and Lundan, 2008, UNCTAD, 2008). The Chinese government is interested in the impact of FDI on domestic firms (Zhou, Li and Tse, 2002), especially in the productivity growth (Liu, 2002, Buckley, Clegg and Wang, 2002). The Chinese government interventions have strong influence on the automotive industry development. These interventions aim to encourage technology innovation and knowledge transfer through regulations, policies and state owned companies. Technology is the key to a nation's competitive advantage, which is exclusive and monopolistic. Knowledge and the capacity of companies to integrate tacit knowledge are considered to be the key competitive assets of companies (Grant & Baden-Fuller, 1995; Conner & Prahalad, 1996). Based on the study of Czech manufacturing firms, Kinoshita found technology spillover is more effective than R&D investment on the growth of productivity of domestic firms. However, technology spillover is likely to be more sufficient in R&D intense firms and oligopolistic sectors. The study has also found that "spillovers from foreign joint ventures are insignificant for Czech manufacturing firms" (Kinoshita, 2001), because the Czech IJV parent companies did not have enough absorptive capacity, which affected the scale of knowledge transfer (Cohen and Levinthal, 1990, Lane, Salk & Lyles, 2001). This findings also applies to the Chinese SOEs in the 80s, when asked by Volkswagen what technologies are mostly needed by the Chinese carmakers, Chinese SOEs could not give an answer because they did not know anything about the advanced technologies available in the West (Li, 2008). The Chinese government gradually realised that the development of SOEs cannot solely depend on knowledge spillover and transfers from the MNEs, SOEs need to conduct and improve their R&D capacities to better facilitate the knowledge transfer process as well as have some technologies to offer and compete in the market. Innovation is one of the most important factors to the economic growth (Fagerberg & Verspagen, 2002). The Chinese government understands the importance of R&D

and technology innovation as the key driving force of economic growth. Especially as the export driven economic growth model based on cheap labour cost drastically slowed down since 2008. The Chinese government is seeking a new growth model.

There are two economic growth models that are particularly influential to the Chinese government's policies. The Harrod- Domar model: $g = i/v$ (g : growth, i : investment, v : capital divided by production), means economic growth came directly from investment. The Harrod-Domar growth model still dominates the policymaking minds in many developing countries today. However, the World Bank records show that, investment does not necessarily bring sustainable economic growth (Solow, 1956, William- Easterly, 2001). In contrast to the Harrod-Domar model, Solow's growth model in 1956 was based on the Cobb-Douglas production function. In Solow's growth model, growth (Y) came from capital (K), labour (L) and technology advancement (A), presented as the total factor production (TFP), and in the long run, technology advancement is the only driving force of economic growth. Technology advancement in Solow's neoclassical economic growth model is exogenous and therefore transferable. If that assumption is viable, developed countries can simply transfer technologies to developing countries and solve the problem of poverty. In reality, the technology gap between developed countries and developing countries is growing. Therefore, technology advancement is not an exogenous variable but endogenously developed. Growth depends on technology advancement, which is directly affected by the host nation's institutional environment, policies, culture and customs. Technology development came from three sources: R&D under imperfect competition (Romer, 1987 & 1990, Aghion and Howitt, 1992, Grossman and Helpman, 1991), "learning by doing" (Arrow, 1962, Tsang, 2002) and the spillovers effect, (Romer, 1986). Government's policies and regulations such as to enhance intellectual property rights protection are crucial to effective knowledge innovation. Government should increase R&D investment and provide tax incentives or financial subsidies to encourage enterprises to increase R&D investment (Havranek & Irsova, 2011). Although there are some questions over the government interventions, such as the majority of taxpayers may not directly benefit from the tax spend on R&D (Rosen, 2010). It is generally accepted that government investments in R&D would have a positive "crowding out effect" on firms to increase their R&D spending (Dominique & Bruno, 2003). R&D capital is often considered as an important indicator of the total factor productivity (TFP). "The stock of R&D capital was considered as a firm's intangible assets and thus unobservable, it is accumulated over time by investments in knowledge and technology" (Kinoshita, 2001). Measuring knowledge transfer is challenging, especially measuring the tacit knowledge flow, thus researchers can only quantify the explicit knowledge represented by patents (Teece, 1977, Mowery, Oxley & Silverman, 1996, Patel and Pavitt, 1994, Inkpen and Pien, 2006). However, the patent driven R&D might have some negative affects on the actual technology development.

In May 2015, the Chinese government published an important strategic plan for upgrading its manufacturing industries named "Made in China 2025". According to the plan, China wants to upgrade from a "big manufacturing country" to a "strong manufacturing country". The ultimate

target is to overtake Japan and Germany in terms of manufacturing capabilities by 2035. The Chinese central government established a special branch called “Building Strong Manufacturing Nation Leading Group” to oversee corporations between government departments to support the 2025 plan. The head of the group is Mr Ma Kai, the Vice Premier, the first deputy heads is Mr Miao Wei, the Minister of the Ministry of Industry and Information Technology (MIIT), who worked as the top manager and president of Dongfeng (the second largest state owned automotive company in China) from 1997 to 2005. The plan has listed several key industries and technologies including energy-saving and new energy automotive, and computer and numerical control lathe, which are related to the automotive industry. During the global financial crisis in 2008, as a response to the fear of economic downturn, Chinese central government has injected large amount of fund to the economy through state owned banks, to infrastructure development, SEOs, preferential policies and government supported research projects. It was widely criticised by economists as the Chinese central government followed the Keynesianism and Harrod-Domar model by injecting more than four trillion RMB (four hundred billion GBP) into the economy from 2008 to 2010 with 10 very broad categories including: build low rent public housing, improving rural infrastructure, accelerate building railway, highway, airport and city electronic system, accelerate developing health care, cultural and education industries, enhancing environmental protections and energy saving development, accelerate indigenous and independent innovation and structural adjustment, support the construction of high-tech industry and industrial technology, support services industry development, accelerate the rebuilding process of disaster areas, increase citizen income, increase social care for low income citizens, encourage companies to conduct technology innovation, cut company burdens, enhance financial support to economic growth, abolish restrictions on the value of commercial bank loan. In 2011, the government issued the “Energy-saving and new energy automotive industry development plan (2011-2020)”. According to the plan, the Chinese government is planning to invest one hundred billion RMB (ten billion GBP) to promote the new energy car technology development in 10 years. The logic of the Chinese government in 2008 and 2015 is that investment and government intervention can create innovation and technology advancement. Researchers have challenged the concept of investment equal to technology development (Frohman, 1982, Kafouros et al. 2008). We will discuss the relationship between government interventions and technology innovations through the case of new energy car technology development in China. We will review whether capability of knowledge and technology innovation can be achieved through government interventions. State interventions such as direct investment, preferential policy subsidy and regulations with a pre-set research directions and product-driven or patent-driven award system may not have a positive effect on real technology innovation and development. The restricted ownership structure of IJV also discourages innovation and knowledge transfer.

2.3.1 Chinese SOE managers and corruption

Chinese SOE managers are studied as a mysterious group of individuals in the past. SOE managers are directly appointed by the state, some were government officials and who never had any prior business experience (Fan, Wong & Zhang, 2007, Brockman, Rui & Zou, 2013). The political career of top managers relies on the SOE growth (Naughton, 1995). However, there are also occasions that SOE managers are motivated not just by financial performance but to serve the political and social objectives of the government (or to individuals who have and can appoint them) to seek promotion (Cuervo-Cazurra and Dau, 2009a, b). Researchers often use the public data record and surveys to study the SOE managers in exploratory studies or to test the result against existing theories on the Western managers. Researchers have studied the relationship between top executive pay and firm share price performance in China and concluded that although the top Chinese executive get paid much lower than the executives in the US, the pay-performance elasticity is almost identical to the US and the UK (Buck, Liu and Skovoroda, 2008). Although researchers have conceded that “substantial perquisites are available to many Chinese executives in the form of housing provision, imported cars, telecom equipment and food and drink expenses” (Fryxell, Butler, & Choi, 2004), they considered that Western executives also have these “hidden perks”. Buck and colleagues optimistically predicted that less state interference in SOEs corporate governance could lead to the disappearance of the fascinating institutional context of China. However, they did not consider another possible result of “this fascinating institutional context”, which is corruption and grey income that may exceed many times the open salary and bonus record they obtained. In the limited number of studies on corruption in international business research, researchers focused on corruption threats of the host government to MNEs, such as irregular tax, increasing costs and uncertainty which is could reduce FDI (Habib and Zurawicki, 2002, Lambsdorff, 2003), or increase FDI (Henisz, 2000) and change the country origin of FDI (Cuervo-Cazurra, 2006). Corruption is often quantified base on the data from aggregate governance indicators database such as Transparency International (Kaufmann, Kraay & Mastruzzi, 2003). The corruption within the IJV at the top level is unexplored, which is understandable due to the lack of evidence. Thank to the anti-corruption campaign that have seriously affected the SOEs and IJVs, there are reliable and public evidence of corruption within the Chinese SOEs and IJVs for researchers to explore, such as trial record, court verdicts and news reports. As White (2001) stated, “to better understand corruption, much more fine-grained definitions and models must be constructed to give scholars the incisive instruments necessary to examine corrupt practices with precision. Solid theoretical foundations are needed to allow for substantive empirical research” (White, 2001). Corruption and study of individual managers also shed light on the study of the differences in managerial values, past studies focused on the national culture and economic ideology perspectives, discussing the possibility of global organisations to build a borderless, seamless, universal corporate cultures (Ralston, Holt, Terpstra & Kai-Cheng, 2008). The objective of this thesis is to make sense of the power structure and institutional environment that facilitate corruption in FAW. How was corruption became part of the ecological system of the FAW.

2.4 Challenging the positivism of the reviewed joint venture literature

This thesis examines a SOE parent company of an emerging market which failed to transfer the positive managerial/technological knowledge generated from its long-term successful joint ventures with MNEs to benefit its own operations.

As reviewed in previous literature review sections, the potential theoretical explanations of this phenomenon from the IB and management literature can be summarised in three perspectives: 1. How do parent firms set their performance goals (Yan and Zeng, 1999, Ren, Gray & Kim, 2009), 2. Determinants that affects the performance goals (Ng, Lau & Nyaw, 2007, Kumaraswamy, Mudambi, Saranga & Tripathy, 2012), 3. Mechanisms of knowledge transfer and organisational learning (Lyles and Salk, 1996, Tsang, 2002, Aguilera, 2006).

These theories are constructed based on rationalist and positivistic logic that dominate the IB and management studies. The positivistic principles of these studies are transcendent of human variation by focusing solely on external environment, organisational structure and knowledge transfer mechanisms (Buck, Filatotchev, Nolan & Wright, 2000, Zhao, Anand & Mitchell, 2005). These findings were based on experiences of studying relatively successful and more “developed” western corporations. Subsequently, scholars apply the same principles to “primitive” organisations in the emerging markets. However, there are issues with such dominant approach in the field of IB studies.

Researchers have concluded that the international joint venture performance goals are: Achievements of Goals (Brouthers and Bamossy, 2006, Child and Yan, 2003, Zollo, Reuer & Singh, 2002, Kumaraswamy, Mudambi, Saranga & Tripathy, 2012), Joint Venture Survival (Corredoira and McDermott, 2014), Learning (Aguilera and Dencker, 2004), Parent Firms’ Overall Satisfaction (Luo and Park, 2004, Luo, Shenkar & Nyaw, 2001, Nakos and Brouthers, 2008) and Financial Performance (Choi and Beamish, 2004, Dhanaraj, Lyles, Steensma & Tihanyi, 2004, Lu and Xu, 2006). These joint venture goals are determined by the following determinants: Parent Firm Commitment (Madhok, 2006), Bargaining Power (Yan and Gray, 1994, 2001a), Control of international joint ventures (Muthusamy and White, 2005), Conflict (Fey and Beamish, 2001, Pothukuchi et al., 2002, Yeheskel et al., 2001), Resolution Mechanisms (Lu, 2007), Organizational Justice (Luo, 2008, Robson et al., 2008), Trust (Nakos and Brouthers, 2008, Luo, 2002a), Cultural Distance (Brouthers and Bamossy, 2006, Lu, 2006, Shenkar, 2011), Cooperation (Anh, Baughn, Hang and Neupert, 2006, Zhan and Luo, 2008) and Goal Congruity (Luo, 2001). The key assumptions on which these IB and management theories of joint venture performance and parent firm learning rest on the external market economy and internal organisational structure as known by the west (Zhao, Anand & Mitchell, 2005). That is to assume long-term market success (Robins, Tallman & Fladmoe-Lindquist, 2002, Zhang, Li, Hitt & Cui, 2007) and company’s survival (Lu and Xu, 2006, Gaur and Lu, 2007, Meschi and Riccio, 2008) are natural and ultimate goals of the joint ventures. Company that fails to achieve these goals have problems with its organisational

structure and managerial mechanism. Under such assumption, the same rules apply everywhere, a “good” organisational model in the US that is “objectively” defined by researchers is a good model in Brazil or China. Consequently, problems that occurred in international joint ventures in Hungary applies to IJVs in China too.

Fundamentally, the claim of such objectivity and the assumption of objectivity of management science are merely cosmetic. The pursuing of the imagined objective, positivist and scientific stance is problematic. Most of the IB and management studies reviewed in literature review sections were analytical works based on the knowledge and understanding shared by both researcher and the observed, which is inevitably subjective. Most of the reviewed studies were structured by the hypothetical deductive paradigm, which is coherent to the pursuing of objectivist and positivist nature of these studies. IB and management studies are typically with researcher defined and designed questions, formulated hypothesis and collected data with the analysis results (Buckley & Chapman, 1997a). Managers, often the object of these studies, only fill the questionnaires or answer the set interview questions, with no input in selecting questionnaires questions, structure interview questions and decide the significance of the results (Buckley & Chapman, 1997a). These studies are largely dominated by researchers’ own understanding of the problems under study through the design of the study. In the field of international business and management study, with considerably less industrial working experience, researchers often try to “teach” managers of better business operations as a mission. This is especially true in the studies of organizations of the emerging markets.

In the western context, the subjectively studied “objective” research might work as researchers are also based in the west with embedded understandings of the native categories. It is problematic as researchers went to other context and expecting the old methods which might have been successful in studying western organisations to work in the new context (Zhao, Anand & Mitchell, 2005). For example, in the case of studying international joint ventures, IB and management researchers had assumed that organizations (parent firms and joint ventures alike) are entities that will pursue their best interests (e.g. Lyles and Salk, 1996, Inkpen and Beamish, 1997, Lane, Salk & Lyles, 2001). Therefore, the performance goals and determinants summarised by these studies are logical. Researchers have found A, B and C in one context, and these findings may be true. In another context, no matter how hard researchers look and want to find the same A, B and C, there might be no such things as A, B and C or they may exist in different format.

The existing assumptions in the IB literature that rests on the positivist principles assumes the motivations of founding and operating joint ventures can be analysed universally. However, as Huntington (1996) has shown, the rise of China is different from the rise of any other competitor that Western civilisations had witnessed in modern time, from the size of the nation, population, culture, history and institutional system. China’s rise poses a different kind of challenge to the West (Rattner, 2018). In recent history, the shift of dominant global power from the United Kingdom to the United States is a shift within the same Anglo-Saxon civilization, with very similar

institutional and market system. The US and the Soviet Union shares some similarities in culture and history with different institutional and market system, as the Slavic civilization is an important part of the European civilization. The competition between the US and Japan in 1980s was between two countries with similar institutional and market system but different civilizations. China is different from all these examples above. Its model of state capitalism as one party state poses a real threat to the market capitalism with democracy of West. State capitalism is not the planning economy of the past, nor it is the pure market economy. It is the government controlled market economy with the visible market presence (SOEs) and interference (regulations) of the state (Bremmer, 2010).

In the case of China and FAW, China is not transitional economy like Hungary, Czech and Poland which were in the process of transforming from planning economy to market economy (Kinoshita, 2001, Lane, Salk & Lyles, 2001). China is also different from the problems encountered in joint ventures in Japan, Korea and India as these companies are operating in the market economy, but parent companies came from different culture backgrounds. The attempt of trying to find the universal joint venture model based on the existing positivistic theoretical lens of international business studies is not sufficient to reach the core of the mechanism of how joint venture in China or any other country where there is no market economy and no real attempt to become a market economy operates in reality.

Social anthropology can provide solution to the problem discussed above. The nature of international joint venture and the SOE parent company operating in the state capitalist economy can only be captured by focusing on the human nature and the human organizational structure of these organizations. Problems of the FAW and its joint ventures are human problems. Instead of focusing on finding the specific problems, such as the lack of knowledge transfer to the indigenous parent company (Ren, Gray & Kim, 2009) and claim the cause of the problems are universal for the indigenous parent company around the world which is lacking of absorptive capacity (Lyles and Salk, 1996, Tsang, 2002, Aguilera, 2006). I argue that the specific problems and its solutions are not universal, but the human mechanism originated the specific problems are universal. Therefore, it is universal that under certain circumstances, certain structures would appear in human organizations that would have certain outcomes. This is rooted much deeper than the current solutions provided by the international joint venture literature. The human mechanism can be analyzed through the lens of structural social anthropology.

2.5 The application of structural social anthropology in this thesis

Compare to the majority of IB and management literature on international joint ventures which “objective” reality is perceived by the researcher, and might be different to the “misconceptions” of the natives. From the social anthropologists’ perspective, reality is socially defined, the structures of perception and cognition is the key issues to research. If objectivity meant to better

pursue the “truth”, then the social anthropology approach is closer of being more scientifically rigor compare to the “objective” way defined only by researchers. Through understandings of how managers perceive their own world. Researchers should be equipped with local knowledge to understand the structure that emerge from people’s action. That is why social anthropology is the potential solution here. Not looking for problem A, B and Cs but looking for structures in the human context through native categories. As an important school of social anthropology, structural anthropologists are interested in the function of customs that might have served and how they fit into the structure of the society (Ottenheimer, 2007). Although anthropologists who study the same tribe or village are unlikely to come up with a similar set of findings. Just like two management researchers studying the same company or set of companies are unlikely to come up with a similar set of conclusions (Johnson, 2007). Yet, structural anthropology and the reflexivity it involves remains the methodological ideal of studying human groups (Johnson, 2007).

The key to a study of business organization is to understand the actions and minds of people working in the organization, how they generate, understand and interpret their own actions. The conflicts between the definition of objective and subjective is important here. Anthropologists believe that in social terms, there is no definite objective reality, only categories that has meaning from its relationship to other categories around them (Ellis, 1989, Ardener, 1989a, Brown, 1995, Buckley & Chapman, 1997a). Social structuralism is subjective because it only exists when people believe it does and give meaning to it. However, once it exists, it objectively exists as it is real within the society and organization it grew out of.

Business researchers should aim to find the structure of mechanisms that explains people’s actions in business organisations, the understandings they possess and meanings they attach to their actions. It requires the researcher to apply theories from the field of structural social anthropology to provide a theoretical explanation of the studied phenomenon from the perspectives of human relations and human society. These perspectives are pertinent here as organisations are made up of human beings and social anthropology is a discipline that has an understanding of human behaviour within human society and organisation which has been largely ignored by IB studies (Buckley & Chapman, 1996a, 1997a, Chapman, Clegg and Gajewska-De Mattos, 2004).

There are clear distinctions between IB/management literature’s approach of studying organisations in comparison to social anthropological approaches. Unlike the IB theories reviewed that focuses on finding an advanced and ideal model for all. In the field of social anthropology, “ethnocentrism” is an abandoned idea in since the 20th century. The dominant social evolutionism theory of early anthropology research in the 19th century believes that there is an evolution process of civilization, every civilisation develops from primitive and barbaric stage to modern civilised society. Therefore, there are primitive society and civilised society (LeVine and Campbell, 1972). Boas (1920) raised the idea of cultural particularism which argues that each society is a collective representation of its unique environmental conditions, psychological factors and historical connections. There are no high or low cultures and people’s actions within a specific culture can

only be evaluated from the principle, standard and value of the set culture they are originated. Therefore, it is important to record society as it is through intensive fieldwork.

The school of structural social anthropology was started with Saussure's lectures. Saussure (1916) has made four distinctions in the social sciences that laid the foundation of structural social anthropology: diachronic and synchronic, language and speech, syntagmatic and associative relations, and signifier and signified. Saussure has discovered the importance of distinguish meaning and content. For example, for the word 'tree', the pronunciation and spelling is the signifier and the image and concept of tree in people's mind is the signified. As St. Augustine wrote in *On Christian Doctrine*, "there are things which are only things, and there are things which are also signs of other things." Saussure discovered that a thing could only be defined in relation to what it was not. Saussure's lecture notes inspired key social anthropology scholars like Malinowski, Durkheim, Radcliffe-Brown and Levi-Strauss, which became the core of structural functionalism and structural anthropology. Malinowski has founded the functionalism school through his fieldwork of Trobriand islanders and the trading system of the Kula ring. As Malinowski (1944) showed, men are no "slave of custom" but rational and conscious actors. Culture and custom are set of tools of a society, the purpose of the existence is to satisfy the physical and mental demand of human beings. The key elements of society are closely connected and also constantly changing to maintain a dynamic, balanced and efficient system with its independent principles of operation which has functional meanings.

Influenced by Saussure, the school of structural social anthropology was established by Levi-Strauss, which is an evolution from Durkheim and Radcliffe-Brown's structural functionalism. Structural social anthropology is about pattern, how things that may appear to be unrelated at first glance actually forms part of a system. Such form is the meaning of the content. Like red, yellow and green, stop, ready and go are only related and have meanings under the system of traffic light. According to structural social anthropology, reality is the relations between things. Meaning comes through knowing these relations and not from knowing things in isolation (Levi-Strauss, 1966). In structural anthropology, what matters is not the differences, but the differences between the differences (Debaene, 2013). As a structuralist, Levi-Strauss is interested in finding the structure of all possible structures that is beyond the culture in his work on kinship (Levi-Strauss, 1969). Structural anthropology is about finding the "logic of the concrete". In his own words, "the real question is not whether the touch of a woodpecker's beak does in fact cure toothache. It is rather whether there is a point of view from which a woodpecker's beak and a man's tooth can be seen as 'going together'" (Levi-Strauss 1966). The aims of Levi-Strauss's works on the structural analysis of myths and classificatory systems were to search for correspondences, analogies, and differences between various elements of the organizing principles (Debaene, 2013).

One of the key assumption of the IJV and indigenous learning literature was that technologies and advanced managerial knowledge have universal values (Yan and Zeng, 1999, Ng, Lau & Nyaw, 2007, Ren, Gray & Kim, 2009) that can be transferred through universal mechanisms (Buck,

Filatotchev, Nolan & Wright, 2000, Zhao, Anand & Mitchell, 2005, Kumaraswamy, Mudambi, Saranga & Tripathy, 2012). However, according to social anthropological principles, the value of technology and managerial knowledge are not universal. The functional meanings of these knowledge varies to different parties depend on the set of relations with other elements.

There are two main bodies of theories from the school of structural social anthropology that will be used to analyse the case company: the theory of solidarity and the sacred-profane dichotomy; and the theory of kinship and tribalism.

2.5.1 Solidarity and the sacred–profane dichotomy

From the social anthropology perspective, one of the key elements of human organization is solidarity (Lukes, 1973). Durkheim (1893) discovered that two forms of solidarity maintained social orders in societies. Solidarity is a group which produces or is based on unities of interests, objectives, standards, and sympathies. There are two different concepts of solidarity “mechanical solidarity” and “organic solidarity”. It represents transition from primitive societies to industrial societies. Mechanical solidarity in a primitive society is where people think and act alike with collective conscience to maintain social order. The moral system of mechanical solidarity society is the reflection of collective conscience. As social ties are relatively homogeneous and weak, such society maintain its cohesion by repressive and punitive law. The industrial capitalist society organized by organic solidarity. Such society has restitutive law system operated by tribunals and functionaries. Although Durkheim’s theory of solidarity and law was proven not universally true empirically (Barfield, 1997). However, the discussion of solidarity and the relations between solidarity and law, especially the functionality and origin of solidarity and human behavior is valid. According to Durkheim’s theory, solidarity is the key functional element of a human organization. Solidarity represents the core of common interests that unifies people in a group, which is the foundation of the group values that is the guidance of their behavior. The forms of solidarity are different for different human groups, but the mechanism of solidarity, social order and human behavior are universal.

The sacred–profane dichotomy is an important part of solidarity structure of human society. The theory of sacred–profane dichotomy was formulated as the central characteristic of religion by Durkheim. "Religion is a unified system of beliefs and practices relative to sacred things, that is to say, things set apart and forbidden" (Durkheim, 1912). From the structural anthropologist perspective, the sacred–profane dichotomy is the vital structure of myth that typically describes the creation of universe, world, city, race, tribe or organisation (Lévi-Strauss, 1955). Origin myth describes how reality came into existence established by sacred forces. The sacred represented the unity of human group as totems. The profane represents mundane individual concerns. Both the sacred and the profane could be good or evil (Durkheim, 1912). The sacred–profane dichotomy of the myth has its social functions (Eliade, 1976). Myths provide explanations with authorization

that unifies society by including events to make the character heroic as role models and encourage people to imitate their deeds and upholding the established values and customs (Brillante, 1991). That is why when asking about the details in ritual and ceremony, the locals had always answered anthropologist's questions by suggesting the ancestors so commanded the ritual and ceremony as it is (Strehlow, 1978). Therefore, myth is an important part of the society as it shapes the characteristics of its origin society. To enhance and maintain solidarity, sacred and profane dichotomy is an important part of the social order (Eliade, 1976).

To pursue the common interest of the group under solidarity, every part of the human organisation must perform certain functions. In field of social anthropology, Radcliffe-Brown had built on Spencer and Durkheim's thoughts and established the school of structural functionalism. He was heavily influenced by Spencer (1891)'s thought that society is like human organs and different social organisation satisfies its functions just like human organs. Through his study of the Andaman Islanders (1922), he discovered that the function of ceremony is to maintain and transfer social affection. "Social control through the systematic application of the force of politically organised society" (1933). Therefore, anthropological functionalists believe that social orders are generated to maintain the functionality of different parts of the social system. This is different from comparing the studied case company to an optimal business model to identify the problems. Social anthropology is trying to produce an inductive 'human model' to determine the structure of the studied company and the functions of activities such as corruption, learning, technology transfer within the structure.

The lens of social structural analysis provides the opportunity to truly explore the core structure of individual motivations through understanding the real meanings from the set of relationships of some seemingly unrelated factors in reality. Just like solidarity and the sacred–profane dichotomy, the relationships between these factors are the core mechanisms of the reality. Similar to the structural analysis of myth, in the case company, the relationships between parent firm motivations, knowledge transfer, learning, efficiency, profitability and joint venture goal setting are all part of one ecological system, which demand to be structurally analysed. Borrowed from Bronfenbrenner (1979)'s human ecology theory, the ecological system in this thesis is referred to the environment and mechanisms that the company, subsidiaries, divisions and individuals of the company operate in.

2.5.2 Sacrifice and ancestor worshiping

There are two important forms of sacred–profane dichotomy in human society, one is sacrifice offering (Eliade, 1976) and the other is ancestor worshiping (Ahern,1973). It was commonly believed that there is the God figure with superior power that controls the humanly uncontrollable factors (Evans, 2008). In the case of farming tribe, the amount of rain, in the case of hunting tribe, the risks of not finding preys and being harmed by wild animals, in the case of fishing tribes, the

weather and the location of fish (Shipton, 2014). In the case of a non-market environment, the ecological system of a company is built on the foundation of independence and relatively isolated internal power structure. External interactions such as new regulations or investigations could crash the self-sustained ecological system. Just like the case of Enron, the external force of investigation body and the media destroyed the ecological system of the company (McLean and Elkind, 2004).

Ancestor is an important part of human identity. Historical legends and origin myth are also an important part of a company's identity. Ancestor worshiping is a process of enhance unity and identity. Ancestor worshiping has its social functions to maintain solidarity of the social unit. China and South East Asia has a long tradition of ancestor worshiping for thousands of years. In the context of China, anthropologist had studied the rituals of Chinese lineage halls in Taiwan (Ahern,1973). The process of portraying the origin myth of a family/company/nation is a vital part of ancestor worshiping (Tylor, 1871, Spencer, 1876).

2.5.3 Kinship and tribalism

There are two parts of the kinship terminology in the field of anthropology. Kinship as part of the social structure of descent and alliance, and kinship as part of the culture process. Until the 1970s, kinship in the discipline of anthropology was a part of the social structure of descent and alliance. The main conceptions of kinship are descent, marriage and affinal alliance (Parkin & Stone, 2004, Ottenheimer, 2007).

In the Rivers' lecture of "Kinship and Social Organization", he introduces the classificatory systems of terminology based on cross cousin marriage. He concluded through structural analysis that different relationships could share the same meaning, such as father in law and mother's brother are the same kinship term in societies with cross cousin marriage (Rivers, 1914). The modern theories of kinship and tribalism were grown out of the school of structural social anthropology. Mauss in his influential essay *The Gift* (1954) determined kinship as marital exchange. The Mauss's essay was understood as the attempt to explore motives to the exchange institutions of primitive societies. Mauss had been proposing in "The gift" that the ideology of exchange as business are separated from the free gift only in the modern Western societies which was largely attributed to the development of capitalism (Canell,2005). However, in the case of China, the development of the special kind of state capitalism have uncertain effects on the ideology of exchange as business and free gift.

In the chapter of "Structural Analysis in Linguistics and in Anthropology" in the *Structural Anthropology* (1966), Lévi-Strauss had further developed the structural analysis of marriage and kinship using the four basic operations for structural linguistics by Troubetzkoy. These are recognizing unconscious infrastructures of social phenomena, focusing upon the relationship

between terms, illustrating the structure of systems, and trying to discover general laws governing the phenomena. Lévi-Strauss had applied these principles of operations in analysing language in linguistics to structurally analyse kinship in social anthropology. Through structural analysis, he discovered that the true atom of kinship is based on the avunculate. In the *Structure and Sentiment* (1962), Needham defend Levi-Strauss' analysis of kin marriage between a man and his mother's brother's daughter by arguing that marriage choice is determined by structural categories defined by the culture (Needham, 1962).

The core structure of kinship is the set of relationships of brother and sister, husband and wife, father and son, and a man's relationship with his sister's son. The symbolic nature of kinship is the foundation of kinship in all societies (Ottenheimer, 2007). The concept of kinship as blood relatives can extend to other social relations (Strathern, 1992, Stewart, 2003). For example, there are great similarities of the relations between long-term work colleague and family members. Under certain circumstances, with greater common interests and more frequent daily interactions, relations with work colleagues may even be stronger than relations with relatives. For centuries, there were no clear distinction between blood relatives as people live and work with relatives in a tribe and village. There was a much longer history of human working with blood relatives than working with strangers (Stewart, 2003). The effort of Radcliffe-Brown and Levi-Strauss to structuralise kinship on two key factors. One factor is that social kinship occurred when human gave cultural recognition and cultural significance to their biological relatives. Such cultural recognitions and significance is based a social force that is a force of nature facts and the human living environment. The second key factor is that social kinship is biological bonds. "Blood is thicker than water", it is part of human nature to obey the demands of biological bond. Kinship system represent a strong form of solidarity, trust and cooperation that keep people together as a group. It has strong functionally purposes. Kinship system differentiated social roles and creates the possibility of forming a close, small, fully functional and self-sustaining society. A group of human beings would naturally form a bond of relationships that based on some form of exchange of mutual and self-benefits. In this sense, the scenario of working colleagues with abundant resources available for exchange between individuals through unofficial mechanisms creates rich soils of forming a form of kinship. Through the research lens of structural social anthropology, the relationships between business employees may not simply be working relationships presumed by IB and management literatures, but a kinship-like system with or without blood relationships that formed different tribal-like groups.

The concept of tribe and tribalism was developed by western colonial authorities to categories and govern the natives in colonial regions (Ahmann, 2013). As a man-made political concept, tribe and tribalism function as political labels to conveniently identify groups of natives. Through the study of the West Africa Conference, Mamdani had demonstrated how race and tribe were used to conveniently govern the natives to maintain order (Mamdani, 2012).

A tribe is a form of human social organisation that is made up by set of bands. A band is the basic form of human society. A band consists of a small kin group, the average number of a social band members is ranging from 30 to 80 people (Zatreva, 2014). A tribe has political integration by traditions of common descent, language and ideology (Fried, 1975). Tribalism has a long history of being associated with chiefdoms and primitive (non-state) societies. It was studied as the political evolution process toward states (Sahlins, 1968). It is unified and bounded by kinship and other forms of social ties. There are clear boundaries that formalised by external pressure. There is also identity, hierarchy and law system in tribal groups (Fried, 1975).

The concept of tribe and tribalism are underestimated in modern society. These concepts are not limited to “primitive” societies, and have important value in the modern world with technologies of internet that magnifies the similarities and differences between individuals and groups. People categorise ourselves into different groups. For example, the theory of 150 Facebook friends known as “Dunbar’s number” is the theoretical limit of numbers of ‘friends’ one person can maintain in real life as well as online (Dunbar, 2010). The influence of tribalism concepts is visible around the world in news we read, how we vote and socialize. Dunbar concluded that social networks “without face-to-face contact, friendships are bound to fade” during Dunbar’s speech in TED Talk in 2012.

Hunting and gathering is one of the few key functions of tribes (Bloch and Parry, 1982). Hunting is understood as the process of capturing or killing wild animals for food and clothing. It requires division of labour as the process is complex and requires a wide range of skills from preparation, tool/weaponry making, observation, stalking, setting traps, chasing, killing or capturing, transportation and storing (Barfield, 1997). Hunting is generally considered as a group task, especially in tribal societies. These hunting skills are learnt through kins and pass on through generations (Bloch and Parry, 1982). In a tribe, hunting and gathering are group activities that conducted by adults, the head of a tribe is typically an elder male whose role is to distribute the harvest (Testart, 1988). “Progressive increases in food supply are considered the preconditions for the appearance of levels of increasing social complexity” (Oberg, 1955). There are more complex roles and will eventually form a social class system. Typically, a ruling class, people who set rules and appoint people to different roles, a governing class, people who manage the workers and harvest, and a working class, people who hunt, collect or harvest (Carneiro, 1981). Breslow’s 2014 study on the Western Washington tribes was an interesting discussion of the relationship between ancient tribe using tools of the modern world to preserve its tradition. Exploring the effort of Native American to restore their rights to fish salmon in the local community using best lawyer and scientists available as tools. The Western Washington tribes are using “best available science” as tools just like any other companies attempting to influence state environmental management policies and practices (Breslow, 2014). Companies are the same to the Western Washington tribes, companies may pursue advanced technologies and management knowledge, but as tools, the implication of these knowledge various. Just like the Western Washington tribes use the latest

Evans-Pritchard's study (1940) of the segmentary lineage and descent reckoning systems using the example of Nuer to structure political organization. It shows that political organisation exists among people with no formal legislation and executive organisations based on the lineage system. Other anthropologists argued that territorial group is the key factor of such social and political system (Kuper, 2005). As human beings, it is natural to group ourselves, through marriage (kinship), friendship and work. The key foundation of kinship through marriage is to form a strong bond with common interests, similar bond can also be achieved through work with formal or personal lineage or territorial environment. In the world of business, a company is made up by subsidiaries and divisions. There are different functions and interests of each small groups within a company, just as in a tribal environment.

This basic form of tribal power structure can be applied to a company. There are the directorial class, the managerial class and the working class. Similar to a tribal society, there are also rules of distributing the crops. In the same structure, the essential elements of a company with history is similar to a tribe or chiefdom that try to survive in the modern world with most advanced tools to maintain the traditional tribal power structure and traditions. The theory of progressive increases in food supply increasing social complexity could also be applied to business studies.

2.6 Chapter Summary

As reviewed in this chapter, there are important theories from structural social anthropology that are closely relevant to business studies. These anthropologist theories need to be applied to business studies to challenge the dominant positivism in IB and management literatures. The key difference between the anthropology approach compare to many positivism business studies is that anthropology through social anthropological lens, researchers must study the business organisation as human organisations governed by human beings instead of institutional organisations governed by structure design, policies and managerial methods. Instead of finding an optimal universal business model, researchers should use social anthropology theories to study the human mechanisms that is behind human decisions and actions that can more accurately explains the outcome.

The bodies of theories from structural social anthropology that are particularly relevant to this case study are: 1. Solidarity and the sacred–profane dichotomy, 2. Sacrifice and ancestor worshiping, 3. Kinship and tribalism. These theories are the core theoretical engine of this thesis. In the following chapters, these social anthropology theories will be used to analyse the ecological system of FAW and FAW-VW that generated the outcomes.

Anthropologist believes that human society is an interlocking set of relationships (Radcliffe-Brown, 1957). The main objective of social anthropology is to get at the essential or elementary forms of human institutions (Monaghan & Just, 2000). The anthropologist Alfred Metraux wrote

to Michel Leiris explaining his view of studying tribes: “the ethnographer should study his tribe as a novelist would do and bring it to life using perspectives and devices borrowed from the art of the novel. To show the mechanism at work, not to take it apart and order the pieces according to totally random and empirical rules. To see them dismantled, see Mauss’s manual. No, what I want is to keep all these combinations for myself, while rendering for others the feeling of life that the contact with other men should create” (Poitry, 1996). I have followed the tradition of social anthropology discipline to “go native” and try to understand from the native eyes of sequence of events and explanation of outcomes. The fieldwork of FAW and FAW-VW was studied as a social experiment that challenges the understanding of the role of ‘parent firm motivations’ and ‘organisational learning’ in IB literatures. Instead of analysing FAW and FAW-VW as commercial organisations that is ruled by its corporate governance design. The case company has been analysed as a human organisation. From the social anthropological perspective, FAW, the case company owned by the Chinese Communist Government is not a “primitive” organisation that needs to be more like the western MNEs such as its joint venture partner Volkswagen. Instead, it is more important to understand the structural mechanism that FAW and FAW-VW are operating in. To understand how each firm, factory, division, unit and individual functions within the ecological structural mechanism and why.

Chapter 3: Research design and Methodology

3.1 Qualitative research in international business research

The discipline of international business is a combination of management, economics and other social science disciplines that study human activities. The aim of social science research is to understand and predict human decision and behavior. However, due to the complicated nature of human beings, it is hard to capture a comprehensive understanding of human actions, especially the collective actions of human organizations. This challenge is particular to the field of international business study due to the richness, openness and complicity of our discipline. International business research in the past developed and largely focused on certain theoretical streams borrowed from other disciplines, including transaction cost economics, institutional theories and cross cultural research (Morais, 2011, Doz, 2011). This tradition led to the mainstream IB researchers shed away from embracing the openness and under-defined field of international business study (Cheng, 2007). Its multidisciplinary nature and the lack of own original theories the identity of international business as an independent discipline at risk (Wilkins, 1997, Buckley, 2002, Doz, 2011).

IB research in the past has been dominated by quantitative studies (Welch, Plakoyiannaki, Piekkari and Paavilainen-Mäntymäki, 2013). Researchers have warned PhD students that qualitative research is risky because it often involves hypothesis development and theory building which requires time, skills and access of data collection (Hurmerinta-Peltomäki and Nummela, 2004, Doz, 2011, Welch et al., 2013). For a PhD thesis, our research ambition is high. As we lay out our research agenda, it is crucial to not only find the right methodology, but also be innovative and bold to accomplish our research objectives. Qualitative studies are difficult to get published in top IB journals (Pauwels and Matthyssens, 2004, Szulanski and Jensen, 2011). Researchers challenged the dominance of the modernist research tradition of “discovery, exploration and induction, and quantitative research to confirmation and theory testing” because “adherence to these dualistic assumptions limits the potential for qualitative research” (Welch et al, 2013). In the field of IB, the value of qualitative studies is often thought to be limited to “discover new relationships or situations not preciously conceived” (Daniels and Cannice, 2004). The dominance of quantitative studies in IB research is based on the positivist paradigm (Morais, 2011). The key assumptions of positivist paradigm are: science is the collection of facts, knowledge is independent from individual values and reality can be and should be studied objectively. From the perspective of the positivist paradigm that permeates the IB field, researchers must study the collection of large sum of facts in order to understand the natural laws that determine human behavior. Therefore, qualitative studies are restricting to the exploratory values only, because of the smaller sample size (Zalan and Lewis, 2004).

However, this thesis argues that a study of an international organisation is a study of the human beings of that organisation. A study of an industry is a study of human beings whom made up that industry, including leaders of the key companies, policy makers, individuals who work in the industry and the customers. Therefore, the key of social science study is about understanding human activities, regardless the form of qualitative, quantitative or mixed research methodologies (Morais, 2011). Quantitative methodologies are used to study the numerical data that shows and predicts the result of human decisions and activities. Qualitative methodologies could offer deeper understanding and explanation of the reasons and motives of human decisions and actions. Scholars stated that original theory development from qualitative studies is needed in IB research (Wilkins, 1997, Buckley, 2002). From the perspective of critical realism, qualitative case studies are appropriate for both exploratory and explanatory research (Elger, 2010). Researchers called for an increasing acceptance of qualitative research method in managerial studies (Bluhm et al. 2011). Qualitative studies have great potentials to contribute to the existing literature of international business. Researchers recognised the value of qualitative research in contributing to theory building in business disciplines (Eisenhardt, 1989, Weick, 1989, Yin, 1989, 2014). Qualitative research offers particular and deeper understanding of organizational process issues and focusing on questions relate to “who, why and how” in human decision making processes (c.f. Aharoni, 1996, Wilkins, 1970, 1974). Rather than focusing on testing the relationship between limited numbers of variables, qualitative methods could help researchers to gain a more comprehensive analysis of the complex business world, which is particularly important and lacking in international business discipline (Poole et al., 2000). Qualitative research also allows inductive theorising that is more accurate at holistically capturing the richness of the phenomenon than deductive theorising that relies on one single theoretical lens (Doz, 2011). The most important advantage of adopting qualitative research is being free from a preset theoretical frame to genuine theory building (Doz, 2011). As Weick argued, rich and thick descriptions of real phenomena can generate deeper conceptual thought (Weick, 1989, 2007). Qualitative research can be used in testing existing theories with a variety of theoretical lenses (Van de Ven, 2007). Quantitative research can also be adopted to test qualitative findings (Poole, Van de Ven, Dooley & Holmes, 2000, Brannen and Peterson, 2009).

Considering the prevalence of gap spotting approach in business research, there is great need for theory testing and theory building from logical positivism perspectives, including challenge conclusions drawn from quantitative method using qualitative method (Alvesson and Sandberg, 2011). Researchers warned the danger of lacking context in international business research (Buckley and Lessard, 2005). Contextual dimensions are essential to fundamental international business research streams such as cultural/countries differences (Cheng, 2007). International business study must capture a rapidly changing business world, contextually rich qualitative research is more likely to discover neglected phenomenon and new research agenda (Doz, 2004, 2011). One of the most important advantages of qualitative research is to better communicate and explain theories to wider audience, especially to the managerial audiences (Siggelkow, 2007). As

richly textured description of specific business phenomenon with rigorous and insightful theoretical analysis can more easily understand by and thus influence the practitioners.

However, the development of IB research did not benefit greatly from qualitative research. That is because scholars in the two main IB paradigms: transaction cost economics and comparative culture studies largely neglected qualitative research in their studies. In other words, qualitative research has never been at the center of IB research. Qualitative case studies are often criticised for the lacking of scientific rigour and reliability due to the smaller sample size. However, quantitative researchers are also facing the same challenges, because to “achieve rigour the researchers find themselves very distant from the reality, which is socially constructed rather than objectively determined” (Aharoni, 2011). Theories of transaction cost were mostly borrowed from economics discipline. Therefore, it was somewhat expected to be influenced by economics research methodologies. However, it is somewhat less understandable that influential studies of culture influences in IJVs are mostly survey based quantitative studies without conducting a single interview (Li, Lam & Qian, 2001). Quantitative methods base on survey data often use the same set of survey questions designed by previous researchers with the assumption that it is universal and academically proven.

The same issue applies to the knowledge transfer studies. The studies of joint ventures and knowledge transfer are also largely dominated by quantitative studies. The key assumption of mainstream knowledge transfer studies is that knowledge can be quantified through survey, numbers of patents or investment in R&D, and thus can be numerically tested as variables. For example, in the highly cited Lyles and Salk’s article on knowledge acquisition in IJV, knowledge was measured in “seven-item scale summarized from Liker-type responses”. The survey asked managers to answer questions such as: to what extent have you learned from your foreign parent a) new technological expertise, b) new marketing expertise, c) product development, d) knowledge about foreign cultures and tastes, e) managerial techniques, and f) manufacturing processes (where 1=little, 5=to a great extent, $\alpha=0.88$)” (Lyles and Salk, 1996). Managers answering this survey would have different understandings of these terms and the scopes. The managers would also reflect their positives and negatives opinions based on their personal experiences in answering these questions. Arguably, the detailed accounts of these personal opinions and experiences are more valuable than the survey results. However, these important contexts are missing in the survey result. Without specific context, it is hard to find the real reasons behind manager’s responses. Another example is the measurements of IJV characteristics, “GOALS, indicates whether the IJV has written objectives and/or a written long-term plan (where 0=neither are written, 1=either are written, and 2=both are written)” (Lyles and Salk, 1996). Managers are unlikely to admit that their firms are not long term oriented. However, having a long term plan written does not necessarily means the firm is more long term oriented than firms without a written plan. It is more important to appreciate the “different constructions and meanings that people place upon their experience”, rather than to just “gathering facts and measure how often certain patterns occur” (Aharoni, 2010). Researchers argued that many business phenomena are not empirically studied following a

replication logic, which prevents researchers to generalize and theorizing due to a small numbers of sampling units (Yin, 2014, Morais, 2011). However, this thesis argues that, increasing the number of sampling units should not be the researcher's priority. It is much more important to find and gain access to the most relevant research targets with an open mind, and the qualitative method offers this degree of freedom. Researchers are calling for a return to the inclusion of qualitative work in IB studies (Doz, 2011, Cerdin, Dine & Brewster, 2014).

Selecting the right research method is to seek the truth from facts and answer the research questions convincingly, may it be quantitative, qualitative or mixed. After considering our research propositions and comparing various research methods, we decided that the inductive multiple qualitative case studies is the most suitable methodology of this thesis. The information we are looking for cannot be obtained from questionnaires and surveys (Chapman, et. al., 2004). There are two dimensions of a case study: causal mechanisms and contexts. One intensive case study allow researcher to understand one specific causal mechanism in one context. Multiple intensive case studies allow researcher to understand interacting causal mechanisms in various contexts (Ackroyd, 2009). As multiple qualitative case study method can enable us to comprehensively study complex phenomena and endorse detail descriptions within the context of the Chinese automotive industry (Pauwels and Matthyssens, 2004, Morais, 2011).

Methodology is the key part of this thesis, not only to find ways of answering our research questions rigorously but also innovatively. In this chapter, we will briefly review the applications of qualitative research method in the international business studies. We will discuss the philosophy behind our methodology selection and introduce our research design in detail. We will review the data collection process and share some interesting observations throughout the collection process. Finally, we will discuss the data analysis approaches of this thesis and how to theorise from the data.

3.2 Research design and data collection

The key research questions of this thesis are why FAW-VW is successful in the Chinese automotive industry and why this success did not transfer to its state owned parent company FAW? In the past literature, IJV performance are measured and analysed from the MNE partner's perspectives, there is limited opportunity to study the perspective of Chinese SOE parent company. In order to really understand FAW-VW and FAW, we need to study the institutional environments of these companies. The research methodology this thesis undertook is proposed to be an experiment of inductive qualitative multiple case studies in IB, which combine data from multiple sources including primary academic and professional interviews, technology reports and market reports, with secondary data including media reports, media interviews, speeches, academic and commercial case studies, government reports and regulations, court verdicts and trial records, financial reports, company and government meeting reports and archival data including memos,

autobiographies and biographies. The data presentation and analysis is aiming to reconstruct the same journey of exploratory and learning for the readers. To make sure we present more than chronicling interesting business situations and phenomena, theoretical review, frameworks and propositions presented in the literature review chapter will be continuously developed through the case studies as an inductive theory development study, which contributes to the literature fields of IJV, SOE and institutional studies.

As discussed in the literature review chapter, this thesis aims to build a comprehensive model of IJV research. Researchers stated, “The success of MNEs is at least as much a function of management ability and behavior as it is of industry characteristics or environmental factors. MNE managers, like all managers, display human limitations...that affect judgment. And yet IB researchers still tend to ignore management in their research, treating the firm as a black box” (Aharoni, 2010). This thesis challenges the lacking of specific detailed descriptions in the literature of joint venture management and knowledge transfer. In order to preserve and utilize the advantages of qualitative research, this thesis will focus on studying specific business phenomena with specific technologies and specific individuals rather than through a blurry generalization lens. This thesis is against overgeneralization, which I believe is widely spread within the business and management research. One of the key challenges of this thesis is to be specific with what we are studying and what we have found. Since the beginning of this thesis, being specific is the fundamental goal of our research. It is defined as finding the real practical problems in the field, understanding real technologies, studying real companies and talking to real individuals. As traditional business qualitative case studies are mostly company based, this thesis adds technological and individual aspects to the research. This thesis tries to gain a comprehensive and unique understanding of the Chinese automotive industry through constructing narratives encountering human stories and technology enquires.

Following this philosophy, I did a fulltime internship in the global automotive division of a multinational consultancy firm in London, from March to September 2012. With considerable amount of persuasion, the University finally accepted that business PhD students should take opportunities to study real businesses through internships. During this six-month internship, I have completed a report on the developing market of the Advanced Driving Assistant System (ADAS) technologies in China. ADAS includes six technologies: Adaptive Cruise Control, Blind Spot Detection, Lane Departure Warning, Forward Collision Warning, Advanced Parking Assistance and Night Vision System. Through the internship, I have studied the global development and market of ADAS technologies. The study includes the general market structure, the value and volume of each major OEM and its suppliers in the ADAS market. The report also provided forecasts of future technology and market development for each of these technologies in China, and of future strategies of the major market players and potential newcomers. I have acquired my technological and market knowledge of ADAS through primary and secondary research. I have conducted 34 interviews, and built valuable connections within the automotive industry. Six of these interviews are telephone interviews with leading MNE suppliers in Europe and 28 interviews

are telephone interviews with MNEs, SOEs, Private car manufacturers, multinational and indigenous suppliers, engineers, researchers and government regulators in China. I have also built a database for the consultancy that includes every passenger car models in China with their current and forecast ADAS penetration rate from 2009 to 2020.

The internship and the ADAS report was the first phase of our study. It offers me some unique understandings of the Chinese automotive industry from the practitioner’s perspective. ADAS was the most practical and advanced active safety technologies that have rapid growing penetration rate in luxury vehicles. It is the important step towards autonomous car, which is the future of the automotive industry. Through studying such important technology development, we have learnt about the relationships between Chinese IJV, indigenous brands, MNEs, and the foreign and indigenous suppliers. We have learnt about the actual R&D of the ADAS technology of these companies. Table 2 shows the list of the interviews in the first phase.

Table 2. The list of the first phase interviews

Interviewee’s Company/Organization	Interviewee’s Occupations	Number of Interviewee
Leading MNE ADAS Suppliers in Europe	Engineers	5
	Marketing Managers	1
Leading Chinese ADAS Research Centre	Head of Department/Researchers/Engineers	4
Government Road Safety Regulators	Officials	2
Chinese Car Safety Testing Centre	Official	1
Chinese SOE Car Manufacturers	R&D Managers	2
	R&D Engineers	2
Chinese IJV Car Manufacturers	Engineering Managers	2
Chinese Private Owned Car Manufacturers	R&D Managers	4
MNE Suppliers in China	Engineers	3
	Marketing Managers	2
Chinese State Owned Indigenous Suppliers	Engineering Managers	2
Chinese Private Owned Indigenous Suppliers	Engineers	4

It is important to select specific technologies, because this thesis argues that it is the most effective and accurate way to understand and identify the exact status of the knowledge gap, R&Ds, knowledge innovations and transfers. This kind of solid measurement is missing in the knowledge

transfer literature. Despite the various backgrounds of my interviewees, to my surprise, there was a unanimous agreement that the ADAS is not at the centre of the development agenda in the Chinese automotive industry. Even suppliers, engineers and researchers of active safety technologies argued that it would take years for ADAS technologies to sink to the mid-ranged vehicles, as for luxury vehicles, the market is dominated by MNE suppliers. All resources are concentrated in the development of new energy cars. ADAS and the autonomous car technology is only a sideshow in China. It is neither the core technology like the engine technology, nor the government prioritized R&D technology like the electric car technologies. Therefore, with the ADAS knowledge, this research moved on to the second phase. In the second phase, I have conducted a field research of a leading Chinese-German IJV and its Chinese SOE partner through interviews. I have also visited one of the most advanced joint venture engine factories in China and conducted some interviews. Table 3 shows the list of the interviews conducted during the second phase of this research.

Table 3. The list of second phase interviews

Interviewee's Company/Organization	Interviewee's Occupations	Number of Interviewee
IJV Engine Supplier	Production Engineers	2
	Interpreter	1
	After Sale Engineer	1
	Procurement Officers	1
	Quality Control	1
	TE Department	1
	Interpreter	1
	Finance Officer	1
	IJV Car Manufacturer	Production Engineers
R&D Engineer		1
Interpreter		1
Procurement Officers		1
Budgeting Officers		1
Finance Officer		1
HR Department		1
SOE	R&D Manager	1
	R&D Engineers	3
	Production Engineer	1
	Procurement Officer	1
	Production Manager	1
	Finance Department	1
Auto Show	PR, sales and engineering managers	26

The second phase of this research was carried out from 2012 to 2013. The initial focus was on the engine technology as the core technology of the automotive industry. Through visiting and studying the most advanced engine factory in China, we wanted to understand how does the technology transfer from MNEs to IJVs, why is it so difficult for Chinese SOEs to design, develop and manufacture high-end engines, what are the channels of knowledge and technology transfers from IJV to SOEs. With the interviewees from the IJV, the interviews were constructed around internal managements, parent firm conflicts, and the propositions listed in the previous chapter and beyond. With the interviewees from the SOE, the discussions were around SOE internal management, supplier management and R&Ds. The second phase of this study started with a technological focus and the discussions and thoughts deepened to the institutional characteristics of these organizations. The interesting business phenomena discovered from the interviews require thick descriptions and more evidence from secondary data. The primary research preparation was supported by secondary research to construct well informed interviews. Primary data was compared to secondary data to examine information accuracy and to provide explanations to enrich secondary data.

As an anthropologist, Geertz (1973, 1983) emphasized the importance of gaining the local knowledge through detailed understanding and description in order to fully understand a phenomenon. Although Yin stated that thick description is not a necessity of a rigorous case study (Yin, 2014). As we are studying the different types of companies and relationships associate with the IJV, the complex natures of these relationships are overwhelming. This thesis tries to understand these complex institutions, which require studying the details of these relationships through deep descriptions. The greatest strength of case studies is to gain contextual knowledge through the use of multiple sources of data. It is very important for researchers to be “exposed to the rich saga of the real decision process and to the way real managers in real firms make decisions” (Aharoni, 2011). The kind of knowledge this thesis wants to achieve is both specific and comprehensive. Thick descriptions are about exploring new business phenomena and understand the real meanings behind these phenomena to make the exploration valuable academically.

Despite the challenges to gain access to companies and organizations, we have made the best effort to find a range of interviewees from different organizations and occupations as shown in table 2 and 3, to share their experiences and thoughts from different perspectives.

The designing and preparation of interviews are important part of the effort of thick descriptions. Each interview was designed individually to maximise the contributions that interviewees could offer to this study. It is important to build trust and to earn respect from the interviewees, so they take the interview seriously and willing to share their real thoughts. It is important to have background knowledge prior to the interview, which can help to design the interview more informatively and also to establish trust and degree of authority in the interview. I found interviewees are more willing to open up and share their knowledge and thoughts with interviewers whom they think can understand them. Through the first phase of this research, the interviews

became more equal and informative as my knowledge accumulates. For example, during my interview with a manager of a Chinese SOE's R&D department about the ADAS technologies on its planning model. The interviewee kept on telling me about how the company prioritizes safety features and independent R&D. I asked him about some detailed ADAS technical features in the planning model, after he told me that the SOE has developed its own ADAS system. From the specific technology features he described, I knew it is from a multinational ADAS supplier. So I asked him if they have worked with that particular supplier, he paused and said yes. He was impressed with my knowledge and arranged an interview for me with the chief engineer who is in charge of safety systems design for that model. We had a very informative discussion about how they have decided on which suppliers to work with, which technologies to use, how they have worked with that foreign supplier on localizing the technologies and how they have negotiated with the supplier to gain the rights of the localized system. Therefore, without the preparation and knowledge, the result of these interviews would be very different from the truth. Thick descriptions are based on understanding real phenomena, which came from knowledge accumulations.

The third phase of this research is to study the rich secondary data to make sense, describe, exam, support and complete the primary data collected during the previous two phases of the research. This secondary data especially focused on two themes, one theme focused on official documents, including government policies, regulations, published meeting records, court verdicts and trial record. The other theme focused on records of top managers of Chinese IJVs and SOE and their companies, including news articles, media interviews, speeches, autobiography and biographical sketches.

Back in 2012, before we start the second phase of this study, we faced a dilemma of how to research the two key technologies of the Chinese automotive industry, the engine technology and the new-energy technology. As in the winter of 2012, the new energy car technology was the buzzing topic. I have contacted five practitioners from SOEs, private car manufacturers and research organisations. However, it was a chaotic market with almost every indigenous car manufacturers and suppliers all have started or planning to start their new energy car development around the same year. There were mixed opinions among the five interviewees, two was optimistic about the technology development because of the government involvement, three was doubtful, and one among the three was strongly against the electric car development. In 2012, the central government has set a clear production and sale target of 5,000,000 units of electric and hybrid plugin cars by 2015. Four interviewees suggested that we should wait until 2015, as the technology and the market would be clearer by then. We have decided to keep observing the new energy car technology and market to see how it evolves over time. I have kept in contact with some interviewees throughout this research, so we have informal conversations about the industry development over time. Like brewing a fine wine, time and patience are important ingredients to this thesis. Meanwhile, we were also observing the Chinese SOE reform process, especially after the new leaders took power in November 2012. There were expectations of change, but no one had anticipated the scale and seriousness of the anti-corruption movement. The corruption

investigations in the FAW and FAW-VW from 2012 to 2015 really shocked many practitioners. Once the lid was lifted, the dark side of these companies was unveiled for the first time in public. It is a rare opportunity for this thesis to capture and analyse the information.

The third phase of this research was inspired by the first two phases. There is demand to collect and apply secondary data to enrich and accomplish the primary data. In order to achieve a comprehensive understanding of the Chinese automotive industry and the IJVs and SOEs, we need to put the phenomena discovered in the primary interviews into the context of the Chinese automotive industry. Reviewing the historical and present context of China, the Chinese automotive industry and the development of SOEs and IJVs in China can help us to understand the evolving external and internal institutional environments of these companies.

3.3 Data collection and observations

The major challenge of conducting IJV and SOE research in China is to gain access to the companies, especially for qualitative research. That is the reason that there is limited number of qualitative IJV studies due to the lack of access to companies (Zhao et al, 2005). This thesis faced the same challenge and the strategy of focusing on specific technologies helped us to overcome this problem.

There were different channels of gaining access to companies and organisations in different phases. In the first phase of this research, interviews were set through the consultancy company. The consultancy company had two sub-offices in China. They have reluctantly shared few contact details of companies with the London office. I have greatly extended the existing connections and established new connections with different companies and organisations. The strategy was to contact and interview researchers, technology experts and scholars at research organisations at the start. My experience was they are more willing to accept interviews and to discuss technologies. They are also more open in sharing their opinions of the industry, technology development and related policies. Interviews with these technology experts are useful to quickly accumulate knowledge, which can be used and confirmed in later interviews. They are also connected to supplier companies. In the ADAS research, I found that many leading private owned supplier companies of ADAS were either setup by business owner/engineers who were students of the researchers, or the supplier company is working with the research organisations. After I have interviewed the leading researchers of the ADAS technologies in China, I have also gained access through my interviewees to private owned and state owned suppliers. We have interviewed government officials, whom were easier to contact than expected. The government department contact details are available on department websites. I have contacted three officials and they are all willing to be interviewed. I have interviewed a cadre who is in charge of the department that analyzing data of road accidents in China and deciding on which safety technology should be mandatory in new car models. He had explained to me in detail about the criteria of technologies

they are taking into consideration, such as the cost, the effectiveness of preventing particular type of accidents, the degree of localization and so on. In addition to the commercial value of these information, these are useful sources of understanding the policy making process in China. The attitude towards having interviews with consultancy firms varies between companies. The interesting observations I had was that private companies were keen to discuss technologies, some SOEs were willing to discuss technologies, but more SOEs I have contacted were reluctant to accept interviews in a bureaucratic tone. To my surprise, many IJVs were reluctant to discuss technologies with consultants. I have only managed to interview two IJV mid-level managers of the engineering department in the first phase of this research. I have later summarized a few reasons: 1. Technology is one of the sensitive and potentially risky topics in IJVs. 2. IJVs have little control over its technologies and designs as it was done by the MNE parent company. 3. Some departments in some IJVs have inherited the bureaucratic style of management from its parent companies. The first six interviews with the MNE ADAS suppliers were in English, the rest for first phase interviews were in Chinese through telephone. On average, each interview was around one hour. The interview content various depend on the occupation of the interviewee. Questions were generally designed around the themes of technological details, future development, cost, current and potential clients, market structures, customer acceptance and future strategies. Most interviewees were relaxed about being interviewed. Their primary concern was technology espionage, and most of the engineers opened up to me, only few officers were reluctant to review their personal opinions about their organisations to me.

Through the first phase of my research, I found my knowledge and confidence grew like a rolling snowball. My consultancy working experience grant me with an “insider” tag, which is important when conducting an industry study (Chapman, Gajewska-De Mattos & Antoniou, 2004). This insider tag really helped me in the first phase of this research. In 2013, I have spent 3 months in China collecting data. I have visited factories, companies and attended auto show. There were four channels of gaining access to interviews: previous interviewees of the first phase, family connections, personal friendship and auto show encounters. I found previous interviewee’s connections are mostly restricted to the ADAS circle. For the ADAS project, they are willing to help me to contact other ADAS researchers and companies because it is considered as professional work. It is understandable that once I left the consultancy company, it became personal favours to let me use their personal connections. Therefore, although they have connections to the engine/new energy technology circles, they are unwilling to use their resources to help me as a “stranger”, who interviewed them through telephones from oversea. The other important factor is that, after I left the consultancy company, my identity changed back to a PhD student and I have nothing to offer them in exchange for their interviews.

Family connections were the most convenient sources I have considered, as my father have worked in the government and private sectors, he has a friend in the government who was in charge of city industry development at the time. Through this channel, I have had a very interesting and strange experience with a SOE manufacturing subsidiary. I have gained the access to the subsidiary

manager's office through the family friend's secretary. The subsidiary manager sent his secretary to meet me and took me to dinner. I was excited and prepared a thorough plan of interviewing and factory observations. During the dinner, I quickly figured out that he was sent here to figure out who I am. I have asked him if it was possible to visit the factory and talk to some engineers, he politely refused by suggesting it needs to be approved by headquarter. I did not know how the message was past on from the cadre's secretary to the manager then to the manager's secretary. I think he was never fully convinced that I am an oversea researcher and my motive was purely academic. Even though, out of desperation I have shown him my student card. He was reluctant to answer any specific questions about the company and was not interested in me either. Although he was very polite throughout the dinner, I felt I was a bother to him and his boss. He treated the dinner as a assigned task, the dinner took around an hour and half, the only questions he answered were where he was from, which university he attended, how long he has been working in the company, his impression of this city and he commented on different car brands and when talked about the SOE, he repeated the information on the company website. He was very tense and alert when I asked about the SOE's headquarter, the top manager of the SOE and the relationships between subsidiaries and headquarter. It was not a successful interview. There could be a thousand reasons why the dinner turned out like this, all I have learnt was that to gain research access through political connections certainly add unwanted tension to the already complicated and delicate matter. I finally made some sense of this bizarre encounter almost ten months later, when the internal power struggles of this SOE were made public. This experience was served as a wakeup call to welcome me to this strange world of Chinese SOEs. The next morning after that awkward dinner, the cadre's secretary called me to follow up, I thanked him for his help and told him it was an interesting experience, but it might be difficult to visit their factory and arrange interviews with their engineers. He offered to call the manager again. I thanked him again, and said I have found interview opportunities with another SOE, I would call him to help when I finish my interviews there, which I never did.

The third channel of accessing to interviews was through a friend whom I grown up with, he studied auto engineering in Germany and works in the quality control department of a joint venture company. His wife who studied accounting in Germany, works in the budgeting department of a state owned car-manufacturing company headquarter. I have visited them in summer 2013 for three weeks. He had brought me into the social circle of the young and mid-age engineers and officers working in joint ventures and SOEs. It was the most fruitful period of primary research. I have also visited one of my interviewee in the first phase, a manager of the R&D department of a SOE. He had introduced me to an engineer in his department, and when I was talking to him over the telephone and in person at his office, he was very formal and prudent. To my surprise, my friend's wife also knows him and I have met him again when my friend brought him to dinner. We had a much more open and honest conversation about the SOE, the technologies and the industry. Most of the second phase interviews were conducted in informal environment, mostly dinner and after dinner gathering in cafe. Interviewees were invited to join us in dinner and the number grows through the interviewees' networks. These informal gatherings last around Interviewees would

introduce their colleagues and friends to me and under the informal environment trust was quickly built. These dinners were generally three hours long with one or two key interviewees in the form of group discussions with around four to five people including myself. Some of these discussions were audio recorded and some were recorded as field notes. The potential risk of group discussions was that people might be reserved in sharing their thoughts with the interviewer than one to one interviews. Although I did not feel that as the discussions were sometimes heated with clashes of opinions, I have in few occasions called the interviewees back to verify some points they made. I have met and interviewed 23 people as shown in table 3 in the second phase of this research, but under the group discussion format, I have interviewed 16 of them more than once. The interviewees were from narrow segments, their age was from 26 to 41, they work in three large companies, and more than half of them have studied abroad. Although these narrow segments could lead to bias in conclusion, as we are studying human individuals, trust is the most important element in finding the truth. Trust is built on mutual understandings and acceptance of each other's identities, I was accepted and considered as an insider in that social circle as I'm a friend of their friend, a Chinese, who was 23, studying abroad and have some knowledge about ADAS and the industry. I need to convince interviewees that there are mutual understandings between us. I think my personal experience helped my research as being part of "life and culture of the people one is studying, to gain a true insider's perspective on their customs and behavior" (Fox, 2004) but also have a certain degree of independence to analyze. At the same time, I'm also an outsider with a safe distance, I was only there temporarily, I was living abroad and I do not work in the Chinese automotive industry, so there is no direct threat to them and their companies to talk to me.

In 2013, I have attended a grand auto show, and one of the interviewees was able to get me a media pass, so I have attended the media day of the auto show with no public visitors but only media and auto companies' representatives. All major automotive companies including IJVs, SOEs, MNEs, and private owned were there to showcase their most advanced technologies. I was able to see their latest model and talk to their PR, sales and engineering managers. I have talked to around 26 managers from 26 companies about their latest technologies development. On average, each conversation lasted around 15-20 minutes.

The first phase interviews and the auto show interviews were under a professional and formal environment, questions are set rigorously around technologies as a structured interview. The second phase interviews were not restricted to technologies but toward more general discussions of institutional environment of the company. All interviews were made anonymous to protect interviewees' identity and enable them to express freely of their personal opinions and experiences. Although the second phases of research were under informal environment, I still consider those discussions as semi-structured, because I was able to set the theme. The nature of semi-structured interviews allows interviewees to express more freely and "share insights on topics or issues that would never come up" using only surveys or structured interviews (Peterson 2004). But the interviewers will still have some control over the interview to make sure all contents are relevant

to the research topics. Both extent of free express and certain degree of control is important to this study. Such interviews often result into a sense of friendship and trust.

Researcher suggests that case selection must be informed by theory (Buck, 2011), our research targets were selected based on the IJV performance literature reviewed in previous chapter. We were aiming to find the interviewees who care familiar with technologies, corporation management and more importantly, willing to share their opinions with us. From my fieldwork experience, some managers are not familiar with specific technologies and use the interview as an opportunity to propagate their achievements. Therefore, it might be impressive to interview 30 top managers, but one engineer could have more knowledge and more willing to share knowledge about a specific technology and the knowledge flow process. I found it hard to challenge managers' words and have a discussion with them, which was not a problem with engineers. It is also not possible to interview managers in an informal environment. As manager are more familiar with strategic and management which are important aspects of this study, interviews with engineers add spine to this thesis and cross-exam the managers' words.

3.4 Language

Language is an important element of this research. Apart from the first six interviews with European ADAS suppliers, which were conducted in English. All other interviews were conducted in Chinese and later transcript in English by the researcher. Being a native Mandarin speaker helped me to gain access to interviews. I have observed an interesting phenomenon when working in the consultancy firm. There was a female colleague from Taiwan who speaks Mandarin with Taiwan accent and there was another English male colleague who can speak some basic Mandarin. Working on different projects, it seemed easier for those two colleagues to gain access to Chinese private companies and research organisations, but it was nearly impossible for them to gain access to government departments and SOEs. They have to ask me to call government related organisations on their behalf with my Mandarin accent. In the process of building trust with interviewees before and during the interviews, they are normally cautious at first and became relaxed with me. The key challenge to me at first phase interviews was to convince some of the interviewees that I was actually calling them from London. Some interviewees would suddenly ask me the time and weather of London at the start of the interview. Once they trust my identity, the interviews are usually conducted smoothly. As for my two colleagues, the reactions they got from the Chinese interviewees were polarized. Their interviewees are either relaxed and open to them or very cautious and suspicious throughout the interviews.

Being educated in China until 14, I can read and write Mandarin, which made secondary data collection much more efficient. I felt being a native speaker also helped in the interviews, without an interpreter, there was no risk of translation errors and the interviews were generally longer with more context. As a native speaker as well as been a Chinese, interviewees are less likely to lie to

me on matters which are considered as commonsense to Chinese. The other matter is reading the hidden meanings between lines, as Chinese is a very tacit language. Interviewees often say: “you know what I mean” at the end of a sentence. I am usually confident that I do know what they are refereeing to, but it also demands research to be familiar with the industry context.

3.5 Data Presentation and Analysis

Knowledge and skills to construct and analyze qualitative data is demanding. We must consider how to theorize from qualitative case studies following qualitative rigor (Gioia, Corley & Hamilton, 2013). In order to answer the research questions and propositions accurately, we have adopted an inductive and holistic approach of research, which “allows explorations of tacit discourses that are hard to obtain by other qualitative methods” (Moore, 2011). As we have emphasized the importance of context, we have to consider the political and economic backgrounds and the development of automotive industry in China since the late 70s. In order to determine the motivations of Chinese companies and individual managers, the rapidly changing social context of China analysed through the case studies. As Zhao and colleagues have stated, the potential future studies of the research on Chinese automotive industry include the Chinese context, which is represented by the actions of state-owned enterprises and the government. “Such organisations have political motivations that might shape the mechanisms that they use to facilitate or interfere with knowledge flows”. They have called for broader future studies to help mitigate concerns over the dominance of MNEs perspectives and integrate a deeper discussion of how government influences knowledge flows and innovations through regulations, policies and investment.

The priority of data presentation and analysis is to preserve the data integrity and logically linking the data to the propositions. It is important for qualitative studies to be logically structure and presented through narrative context (Huberman & Miles, 1994, Miles & Huberman, 1984). Researcher has to make sure readers can clearly understand the context and follows the logical of this study (Zalan & Lewis, 2004). Alasuutari in 1995 identified three different ways of interpretation in qualitative research: factist, narrative and rhetorical. From the factist perspective, researchers have to examine the accuracy and truthfulness of the information and respondents from secondary data and interviews. From a narrative perspective, the truthfulness and honesty of the interview statements and texts are not relevant, “it is the argumentative structures and justifications of the written and/or oral statements and/or bodily action that are studied” (Alasuutari, 1995, Andersen & Skaates, 2004). This thesis argues that both perspectives should be applied, it is very important to determine the truthfulness of our data, as well as interpreting why people communicated and reacted in a certain way which could bring us closer to the truth. In order to capture the complicated context of the automotive industry, narrative approach would be applied in the data presentation and analysis. The development of the industry will be presented not as snapshots in time but as stories of different companies, cascades of related events (Abbot, 1994, McGaughey, 2004).

In order to combine the primary data on technologies development and IJV and SOE management with the second data of government policy and historical development of Chinese automotive companies and managers. In the following chapters, we will review the historical background of the automotive industry in China prior to the joint venture era, through the case study of the Hongqi model and FAW from 1956 to 1983. We will review the historical background of IJVs in China through analysing secondary data. We will review the preferential policies of attracting MNEs. We will review the primary research of IJV performance and control. We will analyse the primary and secondary data the market and State-led domestic R&D, through the primary and secondary data of the development of ADAS and new energy car technologies. We will review the development of the Hongqi Model and FAW from 1983 to 2015.

The evolution of Chinese government's automotive industrial development goals and strategies provides a guidance to understand the historical context and expectations of the FAW. The historical content of developing FAW, the Hongqi model and FAW-VW joint venture is constructed based on variety sources of secondary data, including autobiographies, biographies, news articles, media interviews, public speeches and company archives. The content of government policies is based on government reports, laws and regulations. The section of government driven technology development is constructed based primary research of semi structured interviews with managers of indigenous supplier companies, engineers at R&D centers and officials at industrial governing organisations including Research Institute of Highway Safety Ministry of Transport and China Motor Vehicle Safety Appraisal and Inspection Center.

The priorities of FAW-VW and VW-FAW engineer and staff member perspectives on FAW-VW performance goals were found through asking the following questions to the Chinese engineer and staff member:

1. What do they think the priority performance goals of the joint venture are, and why?
2. What kinds of knowledge do they think they have learnt through their work at the joint venture?
3. Why do they think they need to learn these knowledge?
4. How do they think they have learnt these knowledge?
5. What do they think of the joint venture management?
6. What do they think of the joint venture parent companies?

The answers of these six questions construct from the Chinese engineer and staff member perspectives their understandings of the institutional environment of the studied joint ventures. As introduced in previous chapters, FAW-VW was founded in 1991. From 2011 to 2014, FAW-VW group was in the process of changing its ownership structure, which was during the period of this study. VW-FAW is the engine factory of the FAW-VW group. VW-FAW engine factory was founded in 2007 to produce the advanced VW engine models with the ownership structure of VW AG 60% and FAW Group 40%.

Table 4

Ownership structure of FAW-VW 1991 to 2014	Ownership structure of FAW-VW prior after 2014
FAW Group (60%)	FAW Group (51%)
Volkswagen AG (20%)	Volkswagen AG (20%)
Audi AG (10%)	Audi AG (19%)
Volkswagen (China) Invest (10%)	Volkswagen (China) Invest (10%)

The interviewees include engineers from the production department, R&D department, and quality control department at the FAW-VW; staff members from budgeting department, finance department and HR department at the FAW-VW; engineers from the production department, TE (product technology development) department, quality control department and after sale department at the VW-FAW Engine factory; staff members from finance department and procurement department at the VW-FAW engine factory. For the purpose of anonymity, all interviewees are given English code names to protect their identity.

Table 5: Information of interviewees

FAW-VW:	Position	Code Name	Age Group
Production Department	Engineer	Bill	30-40
R&D department	Engineer	Jim	40-50
Management	Interpreter	Roy	30-40
Procurement Department	Staff	Peter	30-40
Budgeting Department	Accountant	Irina	30-40
Finance Department	Staff	Jerry	30-40
HR Department	Staff	Ann	40-50
VW-FAW:			
After-Sale Department	Engineer	Tom	30-40
TE Department	Engineer	Mark	40-50
Quality Control Department	Engineer	Connie	20-30
Production Department	Engineer	Colin	30-40
Production Department	Engineer	George	30-40

Management	Interpreter	Toby	30-40
Procurement Department	Staff	Kathy	20-30
Finance Department	Accountant	Emma	30-40

Engineers and staff members interviewed at FAW-VW and VW-FAW are all Chinese. The engineers have similar education background with engineering degree from top tier Universities in China. It presents their thoughts on the performance goals of the FAW-VW group from their perspectives. The data is analyzed in subsections of financial performance, learning, survival, parent firm's overall satisfaction and achievements of goals as summarized from the literature review chapter. Each subsection represents one aspect of joint venture performance goals from perspectives of the joint venture Chinese engineers and staff members. Through reviewing the priorities of their daily work and their objectives, we find answers for the following questions from the FAW engineer, staff member and manager perspectives:

1. What do they think the priority performance goals of the FAW are, and why?
2. What kinds of knowledge do they think they have learnt through their work at the FAW?
3. Why do they think they need to learn these knowledge?
4. How do they think they have learnt these knowledge?
5. What do they think of FAW-VW and its contributions to FAW?

The answers of these five questions construct from the FAW engineer, staff member and manager perspectives their understandings of the institutional environment of the FAW. Interviewees include the deputy head of the FAW R&D department, three engineers from the FAW R&D department, one division manager and one engineer of the FAW passenger car production department; a staff member from the FAW passenger car procurement department, an accountant from the FAW group finance department. I have also interviewed managers of various indigenous and MNE suppliers, government regulators and industrial technology experts to equip me with technological and industrial knowledge to conduct and verify my interviews with FAW interviewees. For the purpose of anonymity, all interviewees are given English code names to protect their identity.

Table 6 list of interviewees

FAW	Position	Code Name	Age Group
R&D Department	Deputy Head	John	40-50
R&D Department	Engineer	Mason	40-50
R&D Department	Engineer	Emily	30-40
R&D Department	Engineer	Liam	30-40
Production Department	Division Manager	Jacob	40-50
Production Department	Engineer	James	30-40
Finance Department	Accountant	Sophia	30-40
Procurement Department	Staff	Lucas	30-40
Indigenous Supplier			
1	Director/ Professor	Andy	40-50
2	Engineer	Bob	30-40

Chapter 4: Origin myth: the sacred and profane dichotomy of Hongqi 1956-2005

4.1 Chapter Objectives

The aim of this chapter is to present and analyse through the sacred and profane dichotomy structure of FAW and Hongqi from 1956 to 2005. Through the review of history, we build the foundation of understanding current affairs in FAW-VW and FAW in chapter 5 and 6. Historical context is important to social anthropologist when analysing a myth, race, organisation, practice or village. The historical context of Hongqi and FAW provides a guidance to understand FAW and FAW-VW of today. In this chapter, we explore the different role of Hongqi to FAW in the two periods of 1956 to 1984 and 1985 to 2005 through the structural social anthropology lens. The theories of solidarity, the sacred–profane dichotomy, sacrifice and offering are used to analyse the historical data.

The first part of this chapter presents the historical record of establishing FAW and its Hongqi model from the 1950s to 1970s. The second part of this chapter presents the record of the “joint venture era” of FAW. The strategy and goals of establishing joint ventures in 1980s and the changing role Hongqi during the joint venture era from 1980s to 2000s.

As an important part of analysing the historical context of FAW and Hongqi, the fate of some key FAW managers and engineers in history are also reviewed in this chapter. As an important part of the analysis of FAW and Hongqi, it is important to understand how was history recorded and perceived. The historical content was constructed based on variety sources of secondary data, including autobiographies, biographies, news articles, media interviews, public speeches and company archives. Through structural social anthropology lens, analyse the relationships between factors.

4.2 The sacred and profane dichotomy of Hongqi and FAW from 1956 to 1984

The key of structural social anthropology is to determine the relationships between factors to find the true meanings from these set of relationships within the structure. Solidarity is important to all social groups, as human groups are unified by traditions and common beliefs through the tribal totem as a symbol of unification (Lévi-Strauss, 1962). The sacred–profane dichotomy was formulated by Durkheim, later developed as the structure of myth and religion by Lévi-Strauss. The sacred represents the unity of human group as totems and the profane represents mundane individual concerns (Durkheim, 1912). Like a tribe, solidarity is key to the FAW. The origin myth was portrayed and interrupted to serve the purpose of solidarity. Like any origin myth, the origin

myth of FAW also has the structure of sacred–profane dichotomy. This structure is an important part of the FAW’s identity. It is the key solidarity force of the company.

4.2.1 The consecration of Hongqi

The process of consecration is the process of making something sacred. The First Automobile Works (FAW), the case company of this thesis, represents the development of Chinese automotive industry from the 1950s to 1980s as the first major automotive manufacturing company in China. The initial purpose of building FAW was to manufacturing military and industrial trucks. FAW was founded in 1956 with USSR’s support after six years of preparation. Chen Zutao, the chief engineer of FAW (1956-1962) was one of the key founders of FAW. He has recorded the details of the preparation work of building FAW in his memoir “My Auto Life”. The FAW factory was designed by the USSR Institute of Automotive and Tractor. The USSR’s support included two advanced 3,500 tons’ press-beds made in the Stalin Automotive Factory when USSR only had three such press-beds at the time. The Soviet government had dispatched groups of engineers to China to train Chinese workers. The Soviet had also invited FAW engineers to the Stalin Automotive Factory to complete training (Chen, 2005). In July 1956, the first Jiefang (Liberation) truck was manufactured. It was the first indigenously manufactured vehicle in the Communist China. According to the biography of Rao Bin, the first general manager of FAW, Chairman Mao was pleased after the presentation of the truck in Beijing and said to Rao Bin, “It would be great if one day we could ride in our Chinese manufactured saloon car to attend meetings.” This is the beginning of the consecration of FAW and the Hongqi model.

In 1957, the Chinese central government officially ordered FAW to manufacture a saloon model for the national leaders (Zhang, 2003). In a media interview, Shi Ruji, the then head of FAW designing department recollected the designing of the first FAW saloon car, after collecting information on the most advanced modern luxury saloon cars available in the 1950s, Shi Ruji chose two cars for the new saloon model to be based on: the Simca Vedette model produced by the French car manufacturer Simac and the Mercedes-Benz model 190. Based on the reverse engineering of these models, the first Chinese indigenous saloon car Dongfeng CA71 was manufactured in 1958. The model was named Dongfeng (East Wind) because of the famous quote from Chairman Mao’s speech in Moscow, “the east wind prevails over the west wind” (Li, 2015). Mao’s influence on the saloon doesn’t stop there. According to the memoir of Li Lanqing, then head of FAW Planning department, initially, the Dongfeng’s nameplate was made in Roman alphabet, officials urged FAW to change it to Chinese characters which was handwritten by Chairman Mao himself. On the side of the Dongfeng CA71 model Chairman Mao also wrote the logo of the China First Automotive Works (Li, 2008). In 1958, Rao Bin, Shi Ruji and Li Lanqing took the Dongfeng CA71 to Beijing to present it outside Huaiyuan Hall, Chairman Mao’s residence. All national leaders were summoned to review the model.

This was the moment of consecration of FAW. FAW had officially started to serve Chairman Mao directly, who was the God figure of Communist China. With his hand written logo, FAW and FAW saloon are closely associated with Mao, which has made FAW and later the Hongqi model sacred. It is not just a vehicle FAW designs and produces, it is a political symbol of China. FAW is not only a state owned carmaker, it is also a political symbol of the state owned economy. These facts had shaped the identity of FAW and its relationships with the Communist Party for decades. This is the ecological system of FAW. For the FAW managers, engineers and workers, they are not only manufacturing cars, but they are the direct servants of Chairman Mao. These were not only mere cosmetic honours but actual political assets that had brought personal advancements and tragedies to FAW managers and engineers.

From 1953 to 1956, FAW had sent around 500 engineers to the Soviet (Chen, 2005). These engineers were regarded as precious human resources by the Chinese government. Many of these engineers were promoted to important positions. Two of these engineers had eventually become top party leaders themselves. Li Lanqing became the Vice Premier of China from 1998 to 2003. Jiang Zemin became the General Secretary of the Communist Party of China from 1989 to 2002 and the President of China from 1993 to 2003. Their successful political career was part of the sacred status of FAW and Hongqi. The success of their political career have also enhanced the sacred status of FAW and Hongqi. During Jiang's 15 years of presidency, he had visited FAW three times. He often said, "I am a FAW man" and had always took the official visiting photos beside Chairman Mao's handwritten inscription stone of FAW (FAW, 2000).

The presentation to Chairman Mao and party leaders in 1958 has profound influence on FAW until today. From the structural social anthropology perspective, this is the construction of FAW's sacred and profane dichotomy that is the basic structure of FAW's ecological system.

Interestingly, during the presentation, Premier Zhou Enlai opened the hood and asked, "I heard this engine is copied from Mercedes-Benz model 190, right?" Shi Ruji answered, "Yes." Zhou said, "All major automotive brands copy from each other. But we need to do it cleverly, we have to make some changes, if we copy the engine exactly, they would be unhappy. For example, we can change the shape of the valve chamber cover." (Zhang, 2003) The contrast of the reverse engineering methods and the sacred status of the FAW saloon model shows the structure of the sacred and profane dichotomy in FAW. The cause is sacred, but the methods can be profane such as reverse engineering. This was limited to the technological capabilities of FAW. However, reverse engineering is not a problem to the sacred cause. This structure had become the foundation of FAW. The Hongqi model is the sacred offering from FAW to the superior. FAW managers and engineers are unified under the cause. The methods of developing the model are flexible since the beginning.

There were only 30 Dongfeng CA71 model cars ever produced. As a sacred sacrifice to the most powerful men in China, the model used the best possible interiors, such as silk brocade seats, velvet

ceiling, wool carpet, the control panel was made of lacquer-wood, all switches were made of carved ivory and the smoking utensil and handle were made of cloisonne. However, it was not a reliable car with frequent failures due to the crude methods of reverse engineering due to the lack of technological and manufacturing knowledge. As the first saloon model made in the Communist China, Dongfeng laid the foundation for development of the Hongqi model. It was at the hype of the Great Leap Forward movement in 1958, FAW announced the plan to build a more luxurious saloon car just 90 days after the first Dongfeng CA71 model was manufactured. The plan was to produce a completely new model with better performance and reliability within a month. FAW engineers based the design of Hongqi model on a 1955 model of Chrysler Imperial borrowed from the Jilin Institute of Technology, which was bought from the Yugoslavia Embassy in China. The most challenging part of manufacturing the Hongqi model is the reverse engineering process of the V8 engine (FAW Archives).

According to Cheng Zheng, the chief designer of Hongqi CA72 model, Soviet experts had told him to give up on the V8 engine design because even the USSR cannot produce V8 cylinders engine in 1958. This has further inspired the FAW managers and engineers, they are determined to get the V8 engine that even the USSR doesn't have, just like the behaviour of lavish immolation of sacrifices to show human devotion. The solution was to hand cast 100 engine blanks based on the Chrysler engine, and to choose 3 best engine blanks, assign each engine blank to a team of engineers and crafted workers to detail using rasp through day and night for two weeks. Finally, the best one was picked to put in the CA72-1E (the experimental car) model. In August 1958, after 33 days of intense work, the first Hongqi model was manufactured. It was named Hongqi (Red Banner) meaning the car was designed and manufactured "holding the great red banner of Chairman Mao's Thoughts up high". Within two months, FAW also produced a convertible version of the CA72 model for the 10th national day military parade (Wang, 2003). These are abnormal model development time frame with abnormal methods of production. It shows that there was no long term planning of Hongqi model development. It was purely a lavish sacrifice to Chairman Mao to support his Great Leap Forward movement.

Engineers at FAW had spent a year to test and upgrade the design of the CA72 model based on two other advanced saloon models, Cadillac Fleetwood and Lincoln Continental. The finalized version was manufactured in August 1959. The design of CA72 model was classic with strong Chinese elements, there were ultimate luxury and attention to details, the fan shaped grille and the Chinese royal lantern shaped taillight. There were five little red flags representing worker, farmer, merchant, student and soldier on the side of the car. After 1960, FAW focused on improving the quality of the Hongqi CA72 model. In 1960, FAW designed a three rows CA72 model. It was changed to three little red flags representing the General Path, Great Leap Forward and People's Commune, representing Chairman Mao's three key political philosophies in 1960. This was a small change with significant political meaning to reflect the political climax of the time, which provides further evidence of the sacred nature of Hongqi. There were also human tragedies due to the consecration of Hongqi. The new CA 72 model made exterior design changes to a sportier shape

that was inspired by fashionable Italian car designs, to make the car slimmer and flatter (FAW Archives). The new design had brought misfortune to the model chief designer, Cheng Zheng. Cheng Zheng's father Cheng Ke was the mayor of Tianjing City before the Communist government. Cheng Zheng was well educated with a gentle manner. He was a car enthusiastic and an artist who bought a second hand motorbike to travel to the countryside to find inspiration. During the Culture Revolution, because of Cheng Zheng's special family background, he was convicted for designing a "flat belly car", which was "a vicious attack and mockery of the Great Leap Forward movement and the great famine". He was also criminalized for being a "hypocritical person living the Western lifestyle". He and his sample car were paraded through the FAW for public criticisms. His wife publicly divorced him due to the political pressure and he was sent to the assembly line as a cleaner (Xu, 2007).

The misfortune of the chief designer did not affect Hongqi's sacred status. By September 1964, the Hongqi model was officially announced by the central government as the "National Car". The Hongqi model became the official vehicle of national events, diplomatic missions and assigned national leaders' vehicles. However, Culture Revolution has seriously affected the production of Model CA72, there were only 206 units of CA72 model ever produced (FAW Archives). In 1965, a new Hongqi CA770 model was designed by Jia Yanliang, who was just 25 years old. The new model contains a new exterior design and a new engine. Li Gang, the then chief engineer of the Hongqi engine department and later the general manager of FAW in the 1980s recollected the development of CA770 model in an interview. The new engine was designed based on the Cadillac V8 engines with two speed automatic transmission. The national leaders were pleased with the new model. The national leaders had also participated in the designing of the car. The key adjustment requested by the official was to reduce the noise level. The initial design had reduced sound isolation materials to save energy. The mayor of Beijing, Peng Zhen said "we should reduce the noise level because this is a big saloon car with luxurious interior design. This is an extravagant car. Energy consumption is not the priority. This vehicle represents our country on the international stage, when foreign guests talk in the car, the loud noise would leave a bad impression." In 1966, the first 52 units of the Hongqi CA770 model were transported to Beijing and distributed to national leaders with the interior color of their personal choice (Li, 2008). Under the central government's instruction, FAW engineers have started a secret mission to develop a security vehicle model for national leaders. The model development team was led by Mao Weizhong, from the Central Security Guard Bureau of national leaders and the deputy team leader was Zhou Zijian, the vice minister of the First Machinery Science & Technology Ministry. Other team members including military experts of bulletproof armour. In 1969, the first Hongqi CA772 bulletproof model was manufactured. The model contains 6mm bulletproof armour and 65mm bulletproof windows, the tire could run 100 miles after bullet penetration. The car weights 4.92 tons and was regarded as the safest car in the world for its time. The Hongqi CA772 model was part of the Chinese history as Chairman Mao's appointed successor General Lin Biao flee in it to the airport in 1971 (Zhong, 2015).

This was the glory time of Hongqi. However, just like CA72 and its designer Cheng Zheng, the sacred status of Hongqi bring tragedies to its designers. As Jia recollected in a memoir article, the initial design had three red flags on the side of the CA-770 model, representing “Mao’s General Line, Great Leap Forward and People’s Commune”. The Mayor of Beijing, Peng Zhen, participating in the design of the model had suggested FAW to change it to one big flag representing “Mao Zedong Thought”. During the Cultural Revolution, it became one of Peng Zhen criminal charges for attacking the “Great Leap Forward and People’s Commune”. Hu Yuyong, the general manager of FAW and Jia Yanliang himself were publicly criticised for cooperate with the criminal Peng Zhen. Jia was expelled from the position of chief designer of Hongqi until 1972 (Jia, 2008).

As a political symbol, the process of Hongqi model development was affected by the Culture Revolution. The development of Hongqi CA773 model started in 1968. However, as the FAW saloon car development team was abolished, all engineers were sent to work in the factory as assembly workers and some workers on the assembly line took over the job to develop the Hongqi CA773 model. This is to show that workers who are more loyal to the Party and the Chairman than intellectuals can do a better job at serving the Chairman. The Hongqi CA773 model was in production from 1969 to 1976, but due to various design faults and quality issues, only 291 units were produced in seven years (Sun, 2013).

The development of Hongqi resumed in 1972, FAW engineers started to design the CA774 model. The development team was led by Jia Yanliang, the designer of model CA770. The instruction was to catch-up and over-take the most advanced saloon car in the world. To achieve that, Jia designed four sample models in 1975 with bold changes from previous Hongqi models (Zhang, 2012). The new design was advanced and modern, including the use of arc-shaped side windows to improve aerodynamic. The car body was made of high strength steel sheet to reduce weight. It was the first time Chinese automaker uses modern monocoque body frame design. However, the advanced design was conflicted with some functions of the Hongqi model. The aerodynamic shape was regarded by some officials as a lack of solemn status compare to the old square shape. There were safety concerns regarding the big and transparent car windows that overexpose the passengers. The most modern and bold Hongqi CA774 model was not approved by the officials (Li, 2008). In the last few years of Mao’s era, the attempt to modernize Hongqi failed. Its symbolic and sacred status as Mao’s car made it immune to dramatic modernization at the time. In 1976, FAW made an unsuccessful attempt to upgrade Hongqi model by seeking joint development with Porsche. In 1976, Chairman Mao dead, the central government ordered FAW to make an vehicle for the Chairman Mao Memorial Hall to carry Chairman Mao’s corpse in case of emergency (Zhu, 2004). This was the last Hongqi made for Chairman Mao.

In 1979, FAW has resumed the CA774 model development again, with Cheng Zheng came back as the chief designer. The design was conservative, back to non-bearing body system with reduced window size to comply with the government’s requirements. However, the central government had

lost interest in the new Hongqi model, so it was never manufactured (Jia, 2008). As a highly politicalized symbol that was closely associated with Chairman Mao, the sacred status of Hongqi faded temporarily with Mao's death.

4.2.2 The weakened sacred and profane dichotomy of Hongqi in 1980s

Since the economic reform, China has started to trade with the West. The technology gap between state owned auto manufacturers and the international automotive industry became apparent. Chinese officials started to complain about the Hongqi model. FAW was making huge financial losses developing and manufacturing Hongqi. The vehicle had high fuel consumption and poor reliability. There were moments of diplomatic embarrassment when Hongqi vehicle broken down halfway from the airport with foreign leaders on board. The last straw was a serious accident when the Romanian president was visiting the Great Wall and Hongqi's break failed (Li, 2013). There were political reasons for Hongqi to fall out of favor too, modernization, market economy and westernization were the political trend of the 1980s China. Hongqi was regarded as a symbol of conservative and bureaucratic leftover that needs to be reformed. At the time, economic reform was the priority and after Mao's death, the myth surrounding the man was periodically deflated.

According to Rao Bin's biography, the FAW president Rao Bin and the general manager Li Gang were summoned to the central government to be noticed that the decision to cease Hongqi production was made. Rao Bin had argued with the Premier Zhao Ziyang over the decision in the meeting, he said "four people carried palanquin is different from the twelve people carried palanquin (palanquin is the traditional Chinese manpowered vehicles for government officials). The car is bigger, heavier, so the fuel consumption is higher. Compare to foreign luxury models, the fuel consumption level of Hongqi is not much higher. The unit production cost is ten times more than a Jiefang truck, the factory is making lost on the Hongqi Model, but it is for our national leaders, and it is a way for FAW to express our patriot hearts." Zhao rudely interrupted him and said "你别打肿脸充胖子了" (Don't slap your face until it's swollen in an effort to look imposing). A harsh Chinese proverb meaning someone is bragging. Rao then asked "what about the future of our indigenous saloon cars for leaders?" The one word reply he received was "Importation" (Zhang, 2003).

The desperate attempt of FAW leaders to keep Hongqi production, a product that the unprofitable FAW is losing money on, shows the sacred status of Hongqi to FAW. Rao's response proves that profitability is profane in the structure. The sacred Hongqi is the extravagant sacrifice FAW offers to the Party leaders. The more FAW loses money on the model, the more engineers assigned to the development task, the more wasted effort of making the perfect V8 engine replica shows the devotion and loyalty of FAW to the Party leaders. Sacrifice is sacred, profit is profane. Rao Bin and his successors are fully aware of the value of Hongqi to FAW. It remains to be FAW's strongest connection to the central government and national leaders. It is the identity of FAW, the solidarity

force that unifies all managers, engineers and workers of FAW. In the sacred and profane dichotomy structure of FAW, it is the totem of FAW.

In May 1981, the national newspaper the People's Daily announced the government order of ceasing Hongqi's production. It was perceived as a strong signal of economic reform. National leaders started to ride in imported cars. In 1984, China had imported large amount of Toyota Crown models from Japan as official vehicles and Mercedes S-Class for national leaders (Li, 2013). In 1984, the first part of Hongqi story was finished. The FAW was initially established to serve the industrial demand by manufacturing trucks in the planned economy. The Hongqi model was developed to serve the Party leaders and became the totem of FAW.

The reality was that the method of achieving the development of FAW and Hongqi was limited. The Chinese government received technological support from USSR to establish FAW. The Soviet offered direct technology importation and engineers' training. From the Chinese government perspective, it was a successful model of building indigenous auto factories until China-Soviet relationship broke down in 1960. The task of building Hongqi models for national leaders was accomplished by imitating and reverse engineering the most advanced Western saloon models available. There was no consideration for marketization of Hongqi. There was no competitor, no profitability pressure on cutting the R&D spending and production cost. Although there were originalities in exterior and interior designs, engineers were encouraged to directly imitate the advanced models through reverse engineering the powertrains.

The development of FAW and the Hongqi model was highly politicalized. It has affected lives of FAW managers and engineers. All Hongqi models until 1984 were political symbols. It is a symbol of power, the shape, the aerodynamics, the window sizes, the engine, the noise level, and the bullet proof armor were all closely associated with power. As the company's most valuable asset, Hongqi offers FAW managers direct access to the national leaders and offers FAW engineers opportunity to directly serve the great leader. In an autocratic nation, directly serving the national leaders is a great privilege and political asset. Hongqi models before 1984 represented the glory days of the FAW. It was called “共和国长子”the first born son of the Republic.”

The managers of FAW are politicians. As the founder and the first general manager of the First Automobile Works (FAW), Rao Bin was a medical student, a soldier and a communist revolutionist in his youth. He was the mayor of Harbin city before being directly picked by Chairman Mao to establish FAW in 1952 and SAW (Second Automobile Works, now named Dongfeng Motor Corporation) in 1968. During the culture revolution, he was managing the SAW. He had to receive public criticisms and humiliations from the “red guards” by day and carry on his work by night. In 1977, he was appointed the minister of mechanics. In 1982, he became the chairman of the China Automotive Company. Rao Bin was one of the key figures behind establishing automotive international joint ventures in China. In his biography, his wife recorded that he died of a broken heart after learnt that he was excluded from the “Leading Committee of the Automotive Industry”.

(Zhang, 2003). Rao Bin was one of a series of FAW managers who were politicians and their fates were closely tied with Hongqi. The first generation FAW engineers were also strongly affected by the sacred status of Hongqi too. The participation of Hongqi development represents the highest achievement of their careers. However, as emerged from the data, all chief Hongqi models designers were at some stage suffered from political criticisms. Their family backgrounds, their designs, or simply the orders they took from the wrong party officials could all trigger their downfalls. These individual experiences could help us to understand the ecological system of individuals in FAW.

During the process of developing Hongqi, the model was consecrated. FAW managers and engineers were unified under the sacred mission of serving Chairman Mao and the Party elites. The sacred mission brings honour and status to FAW managers and engineers as they have direct access to the Party leaders. The sacred mission also brings personal tragedies to the FAW managers and engineers due to the sacred and highly politicalised nature of Hongqi. The sacred–profane dichotomy structure of myth is also the fundamental structure of Hongqi and FAW. People unify under the sacred cause as it represents the interests of the group. Hongqi is the group symbol, the totem. Wealthy family background, motorbike and weekend trips, love of art, attempt of modernisation, failed attempt of political flattery, profitability, market and the misfortune of obeying the wrong order were on the profane spectrums of the sacred–profane dichotomy structure before 1976.

The sacred–profane dichotomy structure of Hongqi and FAW was under threat after Chairman Mao's death. The fate of Hongqi was in doubt in 1984. Once the Party leaders, the only customers of Hongqi decided to abandon it, the destination of Hongqi was either to disappear or to face the market. It was a choice FAW has to make in order to survive. Two years after the ceased production of Hongqi, the first major automotive international joint venture, Beijing Jeep was established between American Motors Corporation AMC and Beijing Automobile Works BAW in Beijing. The Chinese automotive industry has entered the era of international joint ventures.

4.3 Establish joint ventures

In 1976, the death of Chairman Mao had brought the end to the Cultural Revolution. The economic reform offered people hope to improve their living standard. Communist ideology was collapsing under the power of market and wealth. The developed world warmly welcomed a reforming China. Western countries offered financial and technological support with favorable terms to accelerate the process of rebuilding Chinese manufacturing industries. However, to take advantage of the favorable external environment, Chinese officials and managers must break their ideology shackles. This section reviews the transitional period of negotiation and the initial stages of building automotive international joint ventures between Chinese SOEs with Western MNEs in the 1980s. The aim of the review is to understand the goals and strategies of setting up these joint

ventures from the Chinese perspectives. It contributes to the understanding of how government officials, managers and engineers change their epistemology of past the sacred–profane dichotomy structure. This was the demolition of the old ecological system and the building process of a new ecological system of FAW and its managers.

The sacred–profane dichotomy of the past still had strong influence on the Chinese government and society in the early 1980s. As Chen Zutao, the founding member and chief engineer of FAW had recollected, there were controversies of whether China should develop passenger cars in the late 1970s to early 1980s. The party conservatives argued that passenger car is not production machinery, it does not add much value to building the socialist society. Passenger cars could create hedonism if more low ranking cadres and civilians have access to it. There is no need to learn technologies of producing passenger car in the socialist China. There is a great danger of losing control of the automotive industry if government allows SOEs to collaborate with MNEs. Officials were reluctant to refute these conservative thoughts with the fresh memories of the Cultural Revolution (Chen, 2005).

The emancipation of thoughts started from the top. Deng Xiaoping, leader of China in the 1980s and early 1990s had worked in Renault as a fitter in his teenage years while studying in France. He had witnessed how technologically advanced and profitable Western automotive companies were. In 1978, the Second Automotive Work Group, SAW, was struggling to produce functional vehicles. Deng has instructed them to seek support from abroad, and the central government has allocated fifty million US dollars out of the distressed foreign current reserve to purchase advanced technologies from abroad. SAW has bought an automatic forging machinery production line from Germany. Meanwhile, SAW produced engines have serious overheating problems. Deng ordered SAW managers to find solutions abroad “If we cannot resolve these problems within our own company, then we should consult experienced foreign companies and ask them to help”. SAW engineers have brought the engine to the UK and consulted Ricardo plc, the problem was quickly solved (Li, 2008). At the time, the top priority of the Chinese automotive industry was to modernize production technologies to produce functional vehicles. Seeking technology importation and expertise from the Western MNEs was coherent with the previous strategy of seeking technology support from the Soviet to develop state owned automakers.

Further collaborations with foreign MNEs required more political emancipation. In Li Langqing’s memoir, as the chief Chinese representative in auto technology importation negotiations, Li has recorded in detail of how forming joint venture between Chinese SOE and MNEs became a possibility. In 1978, after SAW received foreign technology support, Shanghai city government proposed to the central government to import an assembly line of passenger cars to save the Shanghai Passenger Car Factory. The target was to have an annual production rate of one hundred and fifty thousand units to export to other countries to earn foreign reserves for China. There was no domestic passenger car market and exportation could avoid the ideology argument of manufacturing passenger car. This shows that saloon car in China still has some sacred status to it,

ordinary people should not be able to own and ride in saloon cars. However, profit is no longer a forbidden impermissible and profane target.

The central government has approved the plan and Shanghai government has invited all major advanced carmakers in the world to visit Shanghai for business observation tours. During one of these tours, the Chairman of General Motors, Thomas Murphy, has introduced the concept of joint venture to Chinese officials. Li Lanqing has recollected the details of this meeting in his memoir. They were negotiating over heavy duty automotive technology importations. During the negotiation, Thomas Murphy, the chairman of GM raised a question. He asked: “Why do you only talk about the importation of technologies with us? Why don’t we talk about the possibility of joint venture?” The interpreter could not understand the meaning. Murphy asked one of his managers to explain to the Chinese officials in detail the meaning of joint venture. He has also told the officials about the benefits of joint venture enterprises, how to establish and run a joint venture and their experience of forming joint venture enterprises in Yugoslavia and so on.”

Murphy later added “Simply put, establishing a joint venture company means we put our wallets together, jointly invest and manage a company. We earn the profit together and share the losses together. This is a mutually beneficial way to corporate. To put it in even more common term, joint venture is like marriage and establish a family.”

Li’s first reaction to the joint venture concept has reflected the sacred–profane dichotomy in the Chinese officials’ mind in the late 1970s:

“After listening to them, in one hand, we felt we have received some new and interesting information and has broadened our commercial knowledge. In the other hand, we thought although they have made some good points, but in reality, what they are proposing is impossible. I was thinking to myself ‘you are capitalists and we are communists, how can we establish a joint venture together?’ Especially as he mentioned a joint venture is like marriage and establish a common family, which made it even more impossible. You are a big capitalist; I am a communist. How can we get married?”

As Li recorded, his initial reaction to Murphy’s suggestion was that it was profane idea. Contracting to the sacred Communist ideology. The ideal solution from the Chinese perspective was to import assembly lines from MNEs for SOEs. As the standard procedures, Li had to send brief reports of every round of important negotiation projects with MNEs to the State Council Foreign Importing Office. The negotiation briefing report has attracted attention from the Deputy Premier, Gu Mu (Li Lanqing later became his successor as the First Deputy Premier in charge of commerce and trade in the 1990s). He had considered this information of great importance and immediately circulates the report in the Central Political Bureau Central Committee and asked for Heads of State Councils and other important comrades for comments. Deng put the final word on this, he simply wrote “joint ventures can be done” (Li, 2004).

Following the permission from the central government, a strategy of 市场换技术 “give market access in exchange for technology” policy has emerged. It was proposed by Rao Bin, who was promoted to the chairman of the China Automotive Company in 1982. He had a clear vision about the future of the Chinese automotive industry, to change the Soviet industry structure, shift resources from heavy industrial/military vehicles to civil passenger cars. Rao had the vision that the automotive industry would become a pillar industry of the Chinese economy. As the founder of FAW and SAIC, he recognized the technology gap and encouraged SOEs to seek technology importation and setting up joint ventures with advanced MNE carmakers (Zhang, 2003). He was involved in all the major joint venture negotiations in the 1980s including the joint venture of SAIC-VW to manufacture VW Santana model, the joint venture of Beijing-Jeep-Chrysler to manufacture Jeep model and the joint venture of Nanjing Automotive Corporation Group-FIAT to manufacture NAVECO (Wang, 1990). As mentioned in previous section, he died in 1987, during a visit to SAIC-VW, to accelerate the slow progress of domestic production of the VW Santana model.

While the Chinese officials gradually opened their minds to work with MNEs through joint ventures. The MNEs were hesitating to invest in a country with poor manufacturing foundation with huge but uncertain market potential . Volkswagen was the only major MNE carmakers to move to China in 1978. The chairman of VW, Dr Carl Hahn, contacted the Chinese authorities to express his interests to form joint ventures with Chinese SOEs to compete with Japanese carmakers. After six years of long negotiation, SAIC and VW finally formed Shanghai-VW. The six-year negotiation with VW provided great resources of knowledge to the Chinese economic reform. It took several years to draft the Law of Joint Ventures to solve legal issues raised in the negotiation. In 1983, VW has offered 16 patents to its Chinese partners and only to found that there was no patent bureau in China to register these patents. VW has convinced the German Patent and Trade Mark Office (DPMA) to help the Chinese authority to setup the State Intellectual Property Office of the People’s Republic of China (SIPO) and to draft the Intellectual Property Protection Law. VW had even donated to the construction work of the SIPO office building in Beijing (Li, 2008). In 10/10/1984, the joint venture agreement was signed in the Great Hall of People, both nations’ Premiers had attended the ceremony. In 2002, with 8 years still left on the joint venture contract, SAIC and VW extended their contract for another 20 years, President Jiang Zeming (the mayor of Shanghai in 1984) had attended the ceremony.

These historical facts showed the demolition process of the old sacred–profane dichotomy structure. In the 1980s, modernization, westernization and pragmatic development goals were the goals. In 1984, Deng Xiaoping had supported the controversial slogan “time is money, efficiency is life”. This had constructed the new ecological world of SOEs in China. Profit, money and efficiency are not profane anymore, but are positive priorities goals.

However, doing business in China was not easy for MNEs in the 1980s. It was a time of clashes

when China has just opened up to MNEs. Jim Mann's case study of Beijing Jeep was a detailed record of the MNEs and SOEs collaboration in the 1980s from the Western perspective based on his first-hand observations. Beijing Jeep was a joint venture between American Motors Corporation AMC and Beijing Automobile Works BAW in Beijing. It was founded in 1983 to produce Jeep in China to compete with Japanese automakers. As the first major automotive IJV between Chinese SOE and MNE, Beijing Jeep provided valuable lessons of how to work with each other to both the SOEs and MNEs. The joint venture eventually failed not because of cultural or institutional conflicts but to the fault of its products (Mann, 1989). The Chinese government has learnt from these experiences and has promoted young cadres to important positions of negotiation and IJV management to replace the old cadres with conservative political views and slow to adapt to the new challenges of managing IJVs. The Chinese government has also set up regulations and preferential policies to systematically attract foreign investment and MNE partners (Li, 2004).

The priority of the Chinese government in 1980s was to integrate China into the global economy and supply chains through FDIs and benefit from technology transfer and knowledge spillovers generated from FDIs (Chen and Chen, 1998, Buckley, 2009, Buckley and Casson, 2009). The Chinese central and regional governments at every level are welcoming foreign investment since the 1980s. The quantity of FDI attracted to a region became an important performance indicator that is closely associated with the career prospects of the regional government leaders. There are preferential policies to attract MNEs to invest in China at the central and regional government levels. These preferential policies often content two parts, favorable corporate and individual tax rates for foreign investors and discounted price for land, electricity and water. The role of economic growth and technology development changed from mere methods to achieve sacred goals to the top priority of officials and SOE managers. This is reflected in laws, industrial policies and regulation.

The first draft of the Chinese Law of Foreign Equity Joint Ventures was implemented in 1979. The law was reviewed and amended in 2001. According to the law, foreign partners of IJVs were required to contribute more than 25% of the capital. The law stated that MNE's capital contribution can be cash, equity and technology. The technology and equipment invested by the foreign partner must be advanced technology and equipment that is suitable for China's need. If MNE intentionally deceived the indigenous partner with out-dated technology and equipment, the foreign partner should compensate for the losses.

In 1994, the central government has issued the automotive industrial regulation, "the Chinese Auto Industry Policy". This was reviewed and amended in 2004 and 2009. According to the policy, foreign car manufacturers cannot operate wholly owned manufacturing companies in China. Instead, they must form joint ventures with Chinese manufactures with their shares limited to a 50:50 ownership structure. The latest amended version of the regulation issued in 2009 has listed key technologies that the Chinese government encourages MNEs to introduce to China, such as technologies of electric cars. This regulation also emphasised the importance of indigenous

innovation and R&D.

“The Automotive Industry Restructuring and Revitalization Plan” is another regulation of the automotive industry. The plan requires MNEs to acquire an existing manufacturing factory if plan to build a new plant when setting up a new IJV. “The Energy-Saving and New Energy Automotive Industry Development Plan (2012-2020)” requires new joint ventures to domestically develop models for the Chinese market. Joint ventures are also required to develop new energy car models in China.

The explicit purpose of these regulations was to encourage and to enforce knowledge transfer from MNEs to Chinese SOEs through joint ventures. The choice of entry mode is limited to MNEs in the automotive industry in China. IJVs became not a temporary business entity but permanent corporations. The focus changes from developing military and industrial vehicles to develop domestic automotive market. These changes in goals and strategies requires a new generation of SOE managers and engineers. In the following section, we will review the how FAW and the Hongqi model adapted in the joint venture era from 1983 to 2005. Focusing on the status of Hongqi model in the new ecological system of the scared-profane dichotomy structure.

4.4 The rebuilding of FAW and Hongqi in the joint venture era from 1985 to 1995

By 1985, the past scared-profane dichotomy structure of FAW around Hongqi was seemingly weakened. Although there was no Hongqi model in production from 1981 to 1996. The development of the Hongqi model was never ceased in FAW. The FAW management have adapted new strategies in response to the central government’s requirement of developing passenger cars for the market (Zhang, 2012). Building on the experience of failed negotiation with Porsche. The FAW’s strategy of developing Hongqi was to jointly develop the model with foreign manufacturers. The goal was to bring advanced foreign technologies to FAW as a foundation to build indigenous models. Lv Fuyuan was the chief negotiator of FAW. In 1982, FAW has started to negotiate with MNEs including Nissan, Ford, Chrysler and Audi. Meanwhile, FAW engineers were researching the most popular sedan models of these brands as foundations to build the new Hongqi model. However, the results were counterintuitive and chaotic. Using the reverse engineering methods of the past, FAW is building Hongqi for the bigger market. In 1982, the model CA750 was developed based on Nissan 280C, directly using 280C engines, gearbox and chassis. In 1984, FAW engineers had installed a Ford 5.8L V8 engine in the CA770 model and redesigned the interiors based on Lincoln models. In 1986, FAW engineers had developed a new Hongqi model based on Dodge 600 model with Chrysler 488 engine. These three models never went into production because FAW could not reach an agreement with these MNEs. Chrysler promised to sell its Dodge 600 production line to FAW in 1987 after FAW bought the Chrysler 488 engine production line. However, Chrysler increased the price of Dodge 600 model production line. FAW was left with a Chrysler engine production line. With no MNE partners, some engineers in the FAW resumed the

effort of redesign the Hongqi model independently. However, their efforts never resulted in production either (Miao, 2009). These chaotic efforts of building the new Hongqi model reflects the state of FAW of the time. It had lost its totem and was desperately adapting to the new structure of profit and efficiency first world.

FAW managers have learnt that it is very difficult to purchase technologies from MNEs without establishing further collaboration. In 1988, FAW has established the FAW-VW with Audi and VW to produce the Audi 100 model through the help from an old comrades of FAW. As introduced in previous sections, the president of China, Jiang Zemin has worked in FAW from 1954 to 1962 in the power chain department as an engineer. Shen Yongyan was a close friends and colleague of Jiang. Shen became the deputy Chairman of FAW in the 1980s. He wrote a biography of President Jiang's time in FAW, which unveiled how FAW got the domestic approval to work with Audi in 1988 with Jiang's help. The following record of their meeting is strong evidence of the scared-profane dichotomy structure of Hongqi at work.

In 1986, FAW was facing financial difficulties. For the company's long-term development, Geng Shaojie, the CEO of FAW was discreetly preparing to produce saloon cars. FAW have negotiated with American and German MNEs and was prepared for collaboration. Around that time, another SOE automaker SAIC in Shanghai was working with VW group to produced VW Santana model. In summer 1986, SAIC has started to assemble an Audi model using SKD (knock-down kit) through the Santana production line. Geng Shaojie heard about this news and urgently ordered Shen to go to Shanghai to meet with the then Mayor of Shanghai, Jiang Zemin. They planned to negotiate with SAIC to help them meet the target of 65% domestic production rate of Santana parts in exchange for SAIC to give up on the production of the Audi model and let FAW collaborates with Audi. They had the meeting at Jiang's residency at night, the deputy mayor of Shanghai who was in charge of the Shanghai automotive industry was summoned by Jiang (Shen, 2006).

Shen explained to Jiang that producing Santana and producing Audi are two very different tasks. The factory needs new mould and equipment. SAIC could assemble a few units using SKD, but it does not have the capacity of mass production of Audi. In Germany, Santana and Audi were produced in two factories. Although SAIC is assembling VW Santana model, it does not have the foundation to produce Audi model. FAW has rich experience of producing top-class saloon cars, the Hongqi model. Although the production was temporarily ceased, but the foundation is there. If SAIC could leave the Audi production to FAW, FAW could help to manufacture Santana components domestically, this would be beneficial to SAIC and FAW. FAW could get the central government's support to resume high class saloon car production in China. Shen recollected that he was trying to persuade Jiang and to test SAIC's reaction. Jiang thought for a while and looked around the room and said, "That's fine."

This shows the urgent desire of FAW managers to start joint ventures with MNEs and their determination to resume Hongqi development. It also shows the influence of the strong bond from

the past scared-profane dichotomy and its solidarity power. Jiang had left FAW for many years and has had a successful political career. Yet, for the FAW and Hongqi, he was willing to sacrifice the interests of the city he was governing. This was a glimpse of the tribal relations at the top level of FAW management. Jiang had left the tribe of FAW, but he is still considered as part of the tribe, by himself and by others. That was reason that Shen could go to see Jiang and asked him to summon leaders of Shanghai to his residency at night rather than having official negotiation meetings at the City Hall during working hours. These actions were to show the strong connections between FAW and Jiang to SAIC managers and leaders of Shanghai. Jiang agreeing to the plan showed his confirmation of the connections. As mentioned in previous sections, he had said he is a FAW man in numerous occasions. The political assets of FAW and Hongqi was an important part of his political resume throughout his life. Therefore, even if an individual that had left the FAW tribe, he will always be considered as one of the tribe. Especially with the political power the individual gained from being part of the FAW tribe, he is expected to contribute back to the tribe. This shows the strong solidarity power of Hongqi as a totem to FAW people in the scared-profane dichotomy structure, just like in any other tribal societies.

One year after the meeting, the central government had announced, FAW and Dongfeng would be the two major manufacturers of saloon cars, the key task of SAIC is to localise the production of Santana parts. The central government would not approve any new saloon car manufacturers in China (Shen, 2006). These were the evidence of how Chinese SOEs collaborates and competes within the broad ecological environment of China. Limited market competition starts to appear among SOEs. However, these competitions can be eliminated or at least kept under the lid through personal connections, in this case, the past solidarity of FAW. The central government was protecting SOEs and does not encourage market competitions. The goal was to modernise a few selected SOEs through forming IJVs with MNEs.

There was further evidence of the power of solidarity and the tribal traditions in FAW. In the 1980s, the FAW management team has started to promote young managers to key positions. Like many human organisations and societies, FAW manager's career advancement came through consanguinity and/or capability. There were two types of managers who were promoted, one type is engineers with knowledge and skills required in negotiation, communication, collaboration and management with MNEs. The other type was the "second generation FAW", sons and daughters of the first generation FAW managers. They were typically university educated and started working in FAW after college. These managers were regarded as someone that can be trusted politically to keep the best interests of the FAW and the Party in mind.

Lv Fuyuan was the first type of managers that got promoted. He was born in a rural farming family. After college, he became an engineer/worker in FAW to install air condition systems on Hongqi models. As a physics student, he self-studied English, Japanese and Russian, as well as radio transmitter technology and computer science. In his spare time, He had translated instruction handbooks of imported machineries. For his excellent language skills and technological

knowledge he had discovered faults of some imported machines that failed to perform to the standard in its instruction handbook. He was promoted by the Hongqi chief designer Shi Ruji to be charge of negotiation with MNE suppliers to seek compensations. He was later sent by FAW to study computer programming design in Canada. In 1985, Lv was promoted to the position of vice manager of FAW. He was in charge of managing foreign partnerships, joint venture negotiations and technology importation. He was constantly travelling between China, Europe and America, and was called the “Kissinger of FAW”. As the representative of FAW in all major negotiations with MNEs in the 1980s. His diplomatic skills and persistent qualities shown through long negotiations with MNEs earned him the promotion to be the deputy Minister of the Ministry of Machine-Building Industry and later the first Minister of Commerce in the 1990s (Dong and Miao, 2006). Lv was another example of the strong political assets that the sacred status of Hongqi could bring to individual’s career. With Lv’s individual efforts and intellect, Hongqi and FAW was a strong springboard of his political career.

The detailed progress of negotiation with MNEs were reviewed in his biography written by his wife, Miao Ruolan. It is an excellent source of studying the goals and strategies of SOE in the early negotiations with MNEs from an insider’s perspective. It unveils the priorities of FAW in these negotiations and the methods adopted to accomplish its goal of technology transfer.

In 1987, FAW was in negotiation with Chrysler to manufacture the Dodge 600 model. After FAW bought the Chrysler 488 engine engine production line, Chrysler management thought FAW has no choice but to buy its model production line. Thus Chrysler priced the model production line at an unaffordable price for FAW. A friend of Dr. Hahn, the Chairman of Volkswagen, heard about this negotiation and informed Dr. Hahn at his vacation home in Italy. Dr Hahn thought this could be a great opportunity to introduce Audi to China. He went to FAW to meet Geng Shaojie, the Chairman of FAW. Geng instructed Lv to leave the US and go to Germany to visit Audi. Dr Hahn has promised FAW that Audi 100 model is a more advanced model than Dodge 600 and VW is willing to introduce it to China. FAW wants to fit the Chrysler 488 engine in Audi 100 so the engine production would not be wasted. Hahn promised that Audi engineers could solve the problem. Before leaving the US, Lv has told Chrysler management: “You have to reduce your price. The VW chairman is visiting FAW now and if you still insist on that price, we will go to Germany.” The vice president of Chrysler replied, “Very well, if you can find a German partner, we congratulate you.” Lv went to Germany to start the negotiation with VW. However, VW management’s attitude was also very tough. There were limited progress and the negotiation almost collapsed until Dr Hahn got involved and pushed VW to sign the Audi 100 model pilot production project agreement with FAW.

By the end of 1988, VW has informed FAW about the availability of the Westmoreland plant in Wisconsin, Pennsylvania. The plant was in operation from April 1978 with an annual production capacity of 300,000 units of VW Golf models. After a large scale technical updates, the plant was closed in 1988. The main plant was 260,000 square meters, it has three production lines including

body welding, painting and assembly. These production lines and machineries were advanced technology to FAW. Meanwhile, Dongfeng has entered negotiations with other MNEs on advanced saloon model production. FAW was in desperate need to get these production lines from VW. To disguise the desperation of FAW, Lv only picked one colleague, Li Guangrong, the deputy chief engineer of foreign relations, to form a modest two men negotiation team to go to Germany.

The negotiation was difficult. Lv was only given \$ 20 million exchange reserve from the central government for this deal, but Volkswagen's asking price was \$ 39 million. After 21 days of hard negotiation, the price was locked at \$ 25 million. VW representatives told Lv that, "We have already dropped our price from \$39 million to \$25 million, if we sell the factory below that price, it is shameful for us. But we are still friends, so let's have dinner before you leave." On the farewell dinner, everyone was more relaxed, and Lv overheard two German managers chatting about their concerns over Audi. Audi had failed to reach the breakeven point in Germany and they may have to make layoffs. Lv immediately suggested that the Chinese government can import some Audi units to make Audi pass the breakeven point and VW can give FAW the three production lines in Westmoreland factory for free. They finally settled on the term that China would import 14,500 units of Audi in three years and VW will give the three production lines in the Westmoreland plant to FAW for free.

After they signed the contract, Lv immediately travelled to the US from Germany. He has urgently summoned all FAW trainees who are studying in the US to guard the factory gate. He has told the local Americans that "Everything inside this factory belongs to FAW now". During the celebration dinner after the contract signing ceremony, Lv suddenly realized the problem of industrial waste after demolition of the plant. He has convinced the VW representative that VW should pay for the industrial waste fee during the celebration party and asked the VW representative to sign the term on a napkin paper. After the demolition, VW local representatives found Lv to negotiate about the waste charges, Lv showed them the napkin paper to settle the charge.

Lv has insisted on the local VW representatives to reopen the production lines to prove it's still working without problems. But his real motive was to avoid the large sum of training fee so FAW workers can observe how these production line works. FAW has send more than 100 Chinese engineers to the US to dismantle the production lines so they can put it back together in China. In the contract, Lv has insisted to add a clear term that FAW owns "Everything, except people" of the plant. When he first visited the factory, there were 12 cars parked on the factory parking lot. Lv wanted to keep these cars, but the local Americans was strongly object to it. He showed the VW local representatives the contract and they finally agreed to split the 12 cars. Those 6 cars played an important part in transporting equipment and machineries. A few of these cars were even transported back to FAW with the production line. Until 2009, the weld line and assembly line of VW Jetta models in FAW was still using the 64 robots purchased from the Westmoreland plant. The three production lines from the Westmoreland plant was the foundation of FAW-VW (Miao, 2009).

In the 1990s, Lv was promoted to various ministerial posts in the central government. He had worked as the vice Minister in three Ministries including Ministry of Machine-Building Industry, Ministry of Education and Ministry of Foreign Trading & Economic Collaboration. He was appointed the Minister of Commerce in 2003. He passed away in 2004 at 59 to cancer. He was fondly remembered among the officials and his FAW colleagues (Dong and Miao, 2006). Miao Wei, who was the Chairman of Dongfeng Group and the Minister of Ministry of Industry and Information Technology had written several articles in memories of Lv, who was his colleague in the Ministry of Machine-Building Industry. Miao recollected that Lv was the first official in the central government who had the vision in 1990 that ordinary Chinese families will be the major consumers of the passenger vehicle market by the 2000s. In the 1980s and 1990s, the main customers of the Chinese passenger car market were regional government, government organisations, SOEs, taxi companies and some private businesses. It was rare for ordinary individuals to own passenger cars privately. However, as the vice Minister who was in charge of making automotive industry policies and development strategies, Lv has the vision that the majority of passenger car market will be Chinese families by the 2000s and SOEs need to be prepared to serve the private market in 1990 (Miao, 2006).

The negotiation record of Lv's work shows that FAW was desperate to modernise its operations. It was a matter of survival. Lv had to be abnormally attentive to details as he was working with very limited resources. This is a clear contrast to the extravagant cost of manufacturing Hongqi. Lv was extremely cautious about cost. The goal was clearly to spend least amount of money to get FAW modernised through joint ventures manufacturing MNE's models. VW was also willing to give in for the mass market of China. Through the lens of history, both parties were spectacularly rewarded from the deal. FAW had officially entered the joint venture era. Successful IJVs would bring valuable managerial experience and technology knowhow to SOEs. To accomplish these goals, in the 1990s and 2000s, FAW was managed by a new generation of managers. They were focused on managing FAW joint ventures. Here are three most important managers of FAW during this period.

Zhu Yanfeng was born in 1961, he is the grandson of Zhu Kezhen, one of the most famous modern Chinese scientist in Communist China, the dean of Zhejiang University in the 1930s and 1940s and the vice chairman of the Chinese Academy of Sciences. Zhu Yanfeng's father Zhu Peiyao was one of the founding members and the manager of the FAW power-chain and foundry factory from the 1950s to 1970s. Chinese President Jiang Zemin and FAW vice Chairman Shen Yongyuan had both worked under Zhu Peiyao's leadership. Zhu Yanfeng had joined FAW in 1983 after graduated from Zhejiang University. Zhu was promoted quickly through the ranks. He was appointed the manager of the FAW import and export company in 1994. He was soon promoted again to the position of deputy chief manager of FAW, CEO and party secretary of FAW passenger car company in 1997. He became the CEO of FAW Group in 1999 and the Chairman and CEO of the FAW Group from 2000 to 2007. Zhu Yanfeng was only 38 years old when he was appointed the Manager

of FAW, which is a Ministerial level position. People refers these quickly promoted officials as “rocket cadres”. In 2008, Zhu had left FAW to be the deputy governor of Jilin province. In 2012, he resigned as the deputy governor of Jilin province and remained as the deputy party secretary of Jilin province. In May 2015, he was appointed the president and party secretary of the Dongfeng Group. He had famously said as the FAW chairman: “To develop indigenous brand, we need to endure the loneliness for 20 years”. This quote was widely criticised by the Chinese media and industrial experts as it was interrupted as FAW won’t develop indigenous brand for the next 20 years (Wang, 2015).

Like Zhu, Xu Jianyi is also a typical “Second Generation FAW” and a “rocket cadre”. His father Xu Zuoren was a founding member of FAW in the 1950s as the deputy director of FAW. He was born in 1953, the same year when FAW was founded. His father named him Jian (build) Yi (first) after the First Automotive Works, meaning he wishes him to contribute in building the FAW. Xu Jianyi grown up in the FAW. After graduated from Jilin University with automotive major, he joined the FAW Chassis Research Department in 1975. He was promoted to the position of deputy director of FAW Chassis Research Centre in 1990. The deputy director of Light Vehicle Research Department in 1992. The deputy manager of FAW Chassis Factory in 1994. The deputy manager of FAW-VW in 1995. The manager of FAW Scheduling Department and the deputy CEO of FAW Group in 1996. The president of FAW-AYAU in 2000 and the vice president of FAW in 2003. In 2003, he had left FAW to work in the Jilin provincial government. From 2004 to 2007, he was the mayor and party secretary of Jilin City. In 2007, he was appointed the CEO and deputy party secretary of FAW as Zhu Yanfeng’s successor. From 2010 to 2015, he was the president and party secretary of the FAW Group (Economic Observer, 2015). Since he started working in FAW in 1975, except 4 years working in the government, Xu Jianyi had spent 36 years working in FAW. Like Zhu Yangfeng, he was also in charge of FAW for 7 years. More on him in later chapters.

An Tiecheng has joined FAW in 1984 as an engineer in the Body Weld Factory. He was promoted to the deputy head of the Technology Department of the Body Weld Factory in 1992. Deputy manager of the Body Weld Factory in 1994. Director of FAW-VW Planning Department in 1999. Director of FAW Planning Department in 2004. He was the CEO and president of FAW-VW from 2005 to 2013. He was appointed as the CEO of FAW Passenger Car Company in 2013. In 2017, An Tiecheng has left the FAW to follow Zhu Yanfeng to Dongfeng Group as the Chairman of Dongfeng Peugeot Citroen Automobile joint venture company (He and Ji, 2017).

From the resumes of these three most important managers of FAW from the 1990s to 2010s. They were all promoted quickly in the 1990s. They all had experiences of working in the joint venture. They are all FAW insiders. Zhu and Xu were born and raised in FAW and together they have managed FAW for more than 14 years. Their fathers are the founding members of the FAW and they are the eyewitnesses of the glory days of Hongqi. They knew the sacred political power of Hongqi and how important it is to FAW. They were born and raised FAW men, unified under their father’s works. They were in charge of constructing the new ecological system of FAW. The

following section is a review of the development of Hongqi models during the joint venture era from 1995 to 2005.

4.5 Hongqi in the joint venture era 1995 - 2005

After 10 years of ceased production, Hongqi model has finally resumed production in 1996. The new Hongqi model was CA7220, the initial design of the new model was completed in 1988. The Hongqi CA7220 model was developed based on Audi 100 model with the Chrysler 488 engine. It took four years for FAW engineers to fit the Chrysler engine into the Audi 100 body. Engineers had to spend the following four years to increase the domestic manufacturing rate of the Audi 100 components in FAW factories. In 1996, the domestically manufactured components rate of Audi 100 model finally reached 90%, and FAW could finally manufacturing the Hongqi CA7220 model. The CA7220 model was the most successful Hongqi model commercially in history. FAW had made a total profit of 6.6 billion Chinese RMB on the model from 1996 to 2006 (FAW website). Its commercial success was partly based on the Hongqi brand value. CA7220 was the first Hongqi model regional governments, organisations, SOEs businesses, and even private individual can buy. The model was seen as a cheaper version of the Audi 100 model manufactured in the FAW-VW factory with the still strong sacredstatus of the Hongqi brand.

In 1998, the next Hongqi model CA 7460 was developed based on the Lincoln Town Car model. It was a completely different car to Hongqi CA7220. It was a joint development product by FAW and Ford. The design of CA 7460 was identical to the Lincoln Town Car model from exterior to interior and the powertrain. All components were imported from Ford USA and assembled in FAW factory. It was powered by the Ford 4.6 V8 engine. It was designed as an ultra-luxury saloon for the luxury car market (FAW website). The model was launched in 2000. It was a total market failure. FAW had only sold less than 100 units in 2000, the model was taken out of the mass production plan and was only produced by order (Zhang, 2013). Unfortunately, this was just the beginning of the chaotic development of Hongqi.

In 1998, FAW had launched an updated model of the CA7220 named Hongqi Mingshi with more advanced technologies like ABS, air bags, steering assistant and central lock. The updated model has a FAW developed engine, CA4GE based on the Chrysler 488 engine. In 2004, Hongqi Century Star model was launched powered by Audi 2.4L V6 engine. In 2005, Hongqi Mingshi model was launched powered by Nissan QG18 engine. In 2005, Hongqi HQ3 model was launched based on Toyota Crown Majesta model with no apparent exterior, interior or powertrain changes (FAW website). All of the models since CA7220 failed in the market. Customers were confused about these models. The only connection between these models were the Hongqi badge. The market reputation of Hongqi brand was tarnished by the inconsistency.

From 1983 to 2005, the goal of developing Hongqi models was to keep the existence of the Hongqi

model and to serve the mass market. The FAW's strategy of developing the Hongqi model was unchanged since the 1950s. It was based on seeking direct technology importation from MNEs with reverse engineering of different MNEs' models. However, the Hongqi brand had lost identity and direction. It has tried to be a cheaper version of Audi small saloon car, then to be various luxury saloon cars for the mass market. There was not consistency in the model design and market positioning. Compare to the market success and development of FAW's joint ventures in the same period, it was clear that the focus of FAW's management was not on its Hongqi model but to establish profitable joint ventures. From 1983 to 2005, it was the transitional period of FAW from a lost SOE to a profitable and successful owner of multi joint ventures with MNEs. However, under the cosmetic changes of the profitability, we want to examine if the fundamental structure of sacred and profane dichotomy was transformed. In chapter 5, we will explore the solidarity structure of FAW-VW. In chapter 6, we will explore the role of FAW-VW in the ecological system of FAW and the solidarity structure of FAW.

4.6 Chapter Summary

This chapter has reconstructed the sacred and profane dichotomy structure of FAW at different periods with the historical data. Through the lens of structural social anthropology, the historical contents of FAW has showed development of this solidarity power structure from the 1950s to 2005. The sacred and profane dichotomy structure had profound effects on the FAW managers and engineers' individual political career and fate. The sacred status of Hongqi reached the peak during Chairman Mao's reign. After Mao's death, the political status of Hongqi had declined. FAW was forced to find MNE joint venture partners to modernise its factories.

The consecration of FAW and Hongqi model means Hongqi is not just a product that needs modern technologies. It is the totem and identity of FAW. The true function and meanings of Hongqi can only be unveiled through structural social anthropology lens. The historical content reviewed in this chapter paved the possibility of understanding the current ecological system of FAW-VW and FAW in chapter 5 and 6.

Chapter 5: The ecological system of FAW-VW: goals, solidarity and tribes

5.1 Chapter objectives

The objectives of this chapter are to analyze from the FAW-VW and VW-FAW engineer and staff member perspectives on joint ventures performance goals through structural social anthropology lens. Through reviewing the priorities of their daily work and their opinions of both parent companies, we can determine the mechanisms of the joint venture goals through social anthropology theories of solidarity and tribalism.

Joint ventures were studied as the reservoirs of knowledge for the parent company in the international business and management literature. The performance goals of joint ventures and determinants to achieve these goals were summarised by researchers. However, from the structural social anthropology perspective, the true meanings of the goals are determined by the relations between these goals and the mechanisms that constructed these goals. This chapter aims to explore the true meanings of the joint venture performance goals of FAW-VW.

As reviewed in chapter 2, a tribe is defined in the social anthropology term as a form of human social organisation that is made up by a set of small bands (Fried, 1975). A band consists of a small kin group ranging from 30 to 80 people (Zatreva, 2014). A tribe has territorial boundaries and political integration by traditions of common descent, rules and identity (Ahmann, 2013). The existence, size, boundary, rules and identity of FAW-VW tribes can be determined through data analysis of FAW-VW daily operation, prioritised goals and relations between divisions.

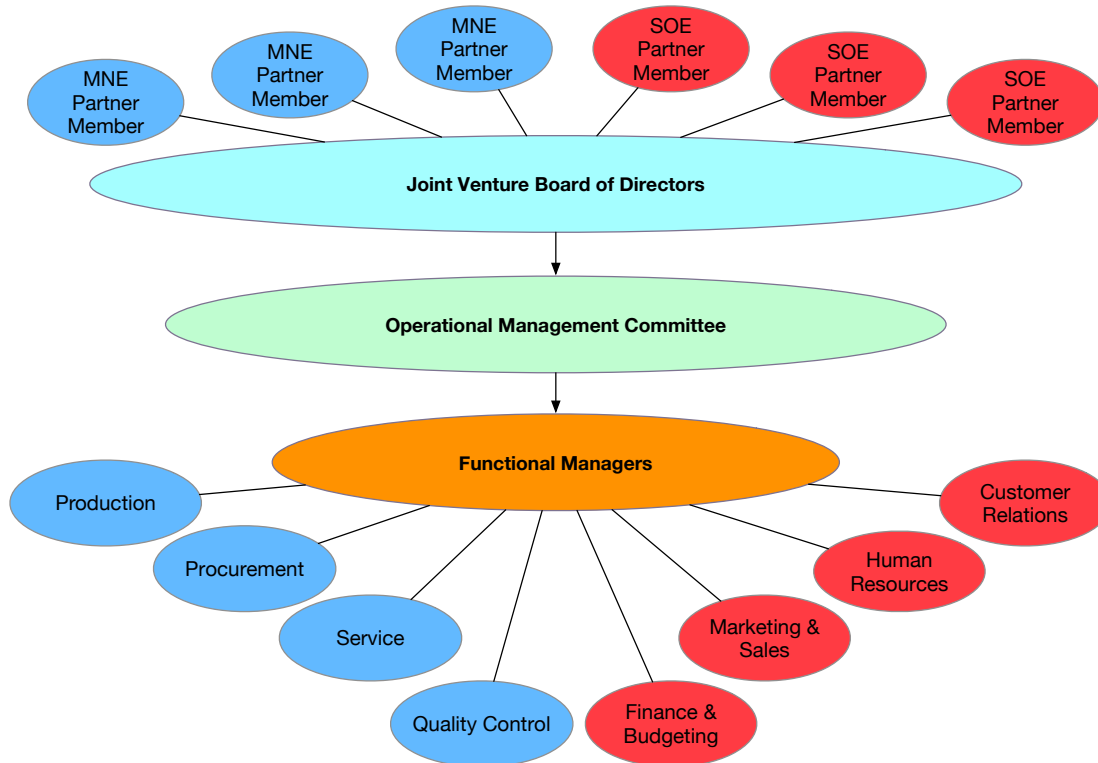
5.2 Background settings of the studied joint ventures

As introduced in previous chapters, FAW-VW was founded in 1991. From 2011 to 2014, FAW-VW group was in the process of changing its ownership structure, which was during the period of this study. VW-FAW is the engine factory of the FAW-VW group. VW-FAW engine factory was founded in 2007 to produce the advanced VW engine models with the ownership structure of VW AG 60% and FAW Group 40%.

Table 7: Ownership structure of FAW-VW

Ownership structure of FAW-VW 1991 to 2014	Ownership structure of FAW-VW prior after 2014
FAW Group (60%)	FAW Group (51%)
Volkswagen AG (20%)	Volkswagen AG (20%)
Audi AG (10%)	Audi AG (19%)
Volkswagen (China) Invest (10%)	Volkswagen (China) Invest (10%)

Figure 9: Management structure of FAW-VW



As shown in Figure 9, FAW-VW is governed by the joint venture board of directors, which is made up by FAW and VW appointed managers. The FAW-VW general manager is appointed by FAW. Operational management committee serves under the joint venture board of directors which oversee management of all departments. Every department have two managers, one appointed by FAW and one appointed by VW, one is the department manager and the other is deputy department manager. Departments in blue are managed by VW appointed managers, which are production, procurement, service and quality control departments. These production departments are managed by VW appointed department managers with FAW appointed deputy department managers. These expat managers are working under contracts with both VW and FAW-VW. Departments in red are managed by FAW appointed department managers, which are finance and budgeting, marketing and sales, human resources and customer relations departments. These service departments are managed by FAW appointed department managers with VW appointed deputy department managers. The VW-FAW engine factory has almost identical management structure with FAW-VW. The exclusive engine supplier to FAW-VW does not have marketing department. Its general manager is appointed by VW. It also has the “double managers” system in each department. The VW appoints managers for production related departments and FAW appoints managers for service related departments.

Interviewees of this chapter include engineers from the production department, R&D department,

and quality control department at the FAW-VW; staff members from budgeting department, finance department and HR department at the FAW-VW; engineers from the production department, TE (product technology development) department, quality control department and after sale department at the VW-FAW Engine factory; staff members from finance department and procurement department at the VW-FAW engine factory. Engineers and staff members interviewed at FAW-VW and VW-FAW are all Chinese. The engineers have similar education background with engineering degree from top tier Universities in China. For the purpose of anonymity, all interviewees are given English code names to protect their identity.

Table 5: Information of interviewees

FAW-VW:	Position	Code Name	Age Group
Production Department	Engineer	Bill	30-40
R&D department	Engineer	Jim	40-50
Management	Interpreter	Roy	30-40
Procurement Department	Staff	Peter	30-40
Budgeting Department	Accountant	Irina	30-40
Finance Department	Staff	Jerry	30-40
HR Department	Staff	Ann	40-50
VW-FAW:			
After-Sale Department	Engineer	Tom	30-40
TE Department	Engineer	Mark	40-50
Quality Control Department	Engineer	Connie	20-30
Production Department	Engineer	Colin	30-40
Production Department	Engineer	George	30-40
Management	Interpreter	Toby	30-40
Procurement Department	Staff	Kathy	20-30
Finance Department	Accountant	Emma	30-40

This chapter presents their thoughts on the performance goals of the FAW-VW from their perspectives. The data is summarized and analyzed through the social anthropology lens of

solidarity and tribalism in subsections of financial performance, learning, survival, parent firm's overall satisfaction and achievements of goals as summarized from previous literature in chapter 2.

5.3 Solidarity, tribalism and joint ventures performance goals

5.3.1 Solidarity and Financial performance

Interviewees from FAW-VW and VW-FAW agrees that financial performance is the most important performance goal of the FAW-VW group. Financial performance measurements including profitability and market share are the most important performance measurements of FAW-VW. Profitability is the solidarity force in FAW-VW that unifies all parent companies and the joint ventures. Each FAW-VW divisions are functioned around the goal of profitability. Since 2010, China has been the largest single market for VW. China counts for 46% of VW global sales in 2012. China is also the most profitable market for VW, as VW faces greater competition in Europe and North America market. As financial performance is the top priority of the joint venture, cost reduction is the key to achieve high profitability. According to Jerry, from the finance department of FAW-VW, the target profitability ratio of FAW-VW is 30% of the model selling price. In the more advanced automotive markets the profitability per unit is lower due to high competition. The Chinese automotive market has been a seller's market and FAW-VW is simply selling every model it produces. That enables FAW-VW to manufacture a model unit under 100 second. This is achieved through cost reduction goals accomplished by FAW-VW engineers.

5.3.1.1 Feature reduction

There are four common goals of reducing production cost in the FAW-VW. One is MNE model localization, commonly through “减配”, “feature reduction”. This process is done internally at the FAW-VW R&D department. As this excerpt from an interview with Jim, an engineer from FAW-VW R&D Department shows:

“Our main task is to localise production process of VW European models to achieve cost efficiency. Our job is to turn the VW European model to the VW Chinese model.”

That means the Chinese joint venture engineers will take out features in the VW European models, which they regard as not essential for the Chinese market. Such items may include pot-hook, LED daytime running light, knee airbag or side crash protection bar. For each model year, FAW-VW engineers have six months to “localise” the European model after launch.

Chinese customers since the 1990s are generally first time car buyers. This is still true in 3rd and 4th tier Chinese cities. Unlike in Europe and North America, China is still building its auto culture. Western customers may rate handling and power system more than Chinese customers. Chinese customers care more about exterior and interior luxury features than power system and chassis system. German cars like VW has to compete with Japanese and Korean brands in these markets. To compete in the Chinese market, reduction often occurs in the power and chassis systems. There are concerns over feature reduction of these systems in vehicle's long-term reliability and safety issues.

In 2010, SAIC-VW has launched a new VW model in China. The Chinese version of the model had some feature reductions, including a small safety component in the power system. The joint venture engineers reduced the component due to the high production cost. Tragic happened during the media test drive. The joint venture general manager, the public relations director, the after-sales manager and an advertising manager were in the same vehicle that crashed and burned during the vehicle testing, they have lost their lives in that accident. The reduced safety component could potential prevent the fatal burning (Legal Daily, 2010).

This accident was a warning to FAW-VW. The process of feature reduction is more rigorous now. The aim is to reduce production cost as much as possible without damaging the market share and brand image. Every Chinese VW model with features reduction need to be approved by managers of the joint venture R&D and production departments whom are usually experienced European engineers. However, there are complicated conflict of interests in feature reductions. Technology transfer fee from the MNE partner to the joint venture is a common phenomenon in the Chinese automotive industry. MNE parent firm provides its model with production technologies but can only get half of the joint venture's profit. Therefore, MNEs commonly charge high technology transfer fees to get more profit from joint ventures. However, from the interests of the joint venture and SOE parent firm, the priority is to reduce production cost by increase components domestic production rate and reduce technology transfer fee through negotiation and by reducing some expensive features. Therefore, feature reduction, as part of technology transfer fee negotiation, is always a lengthy process between parent companies and the joint venture. It is also a dynamic process as each party positions change with time. In the past, VW desperately wants its presence in the Chinese market, so technology transfer fees were low. There were technologies the joint venture got for free in the 1980s and 1990s. Our R&D and production departments digest these technologies and make VW cars. Since the 2000s, the market grew to largest in the world and profitability are too high. FAW-VW and SAIC-VW are also desperately competing to get popular VW models, so the technology transfer fee charged by VW for new models are very high. As this excerpt from the same interview with Jim, an engineer from FAW-VW R&D Department shows:

“There are high pressures on us to reduce the cost of VW models because the technologies are too expensive.”

After negotiation between the joint venture board and VW. The joint venture pays the technology transfer fee to VW. Then it is in the interest of VW to support FAW-VW engineers to absorb its technologies. To the Chinese joint venture engineers, the aim of VW technologies absorption is simply to localisation of the VW models with feature reductions to be competitive in the Chinese market.

5.3.1.2 Domestic supply chain

The second goal of production cost reduction in the FAW-VW is to build a domestic supplier system and transfer the cost reduction pressure to its suppliers. The joint venture has implemented the VW supplier management system. There are transparent standards supplier needs to pass to become part of the supplier system. There are three tiers of suppliers. Tier 1 suppliers supply directly to FAW-VW. It owns some of the tier 1 suppliers, such as the VW-FAW engine factory. There are also MNE suppliers that supplies to VW group globally. Most of these MNE suppliers have factories in China, so they supply to FAW-VW too. There are also privately owned indigenous suppliers, they are mostly tier 2 and tier 3 suppliers that supplies to the tier 1 supplier. As this excerpt from the interview with Peter, a staff member from FAW-VW Procurement Department shows:

“We inspect and rate our suppliers every two years. We carefully select our suppliers. FAW-VW and our tier 1 suppliers provide most of the manufacturing template to tier 2 and tier 3 suppliers, we train their workers and we set the cost target to them.”

This same VW supplier management system is also implemented by the VW-FAW engine factory. VW-FAW is a tier 1 supplier to FAW-VW. Although being in the same company group, the engine factory receives great pressure from its only customer FAW-VW to reduce its production cost. The price of the engine is a result of negotiation between the VW-FAW manager and FAW-VW manager. FAW-VW set low price on its engine and VW-FAW must try to reduce its production cost to make profit.

This shows that the power of market is the dominant force in the production divisions of the joint venture. Production cost is the most important performance measurement to VW-FAW. As this excerpt from the interview with Colin, an engineer from VW-FAW Production Department shows:

“Production cost reduction is our top priority. We have to transfer some of the pressure to our suppliers. We have to review our cost constantly to find ways to further cut the cost, which caused a lot of stress on us and our suppliers. We are pushed by FAW-VW to domestically produce more components to reduce cost.”

To manufacture the VW engine, the proportion of CKD components (imported foreign produced components) was high when a new engine model is introduced to the VW-FAW. There is annual

target set by VW-FAW to increase the proportion of domestically produced components, just like in FAW-VW. VW-FAW engine factory was founded as a significant step of the FAW-VW to increase the proportion of domestically produced key components, such as the engine. These domestically manufactured components are commonly outsourced to domestic suppliers. Following the FAW-VW requirement standard, FAW-VW selects, rates and examines its suppliers, as FAW-VW examines VW-FAW as a supplier. Like FAW-VW, indigenous suppliers provide more than half of the components. The VW-FAW factory has a machining line manufactures large component such as the steel body, steel lid and bent axle. The main manufacturing task of VW-FAW is to assemble all components together, just like FAW-VW.

As a modern MNE automotive manufacturers, FAW-VW relies on its suppliers for “non-key” technologies. The major concern of VW and its joint ventures is not risk to its technologies through imitation. FAW-VW manufactures the key components internally, through factories like the VW-FAW. The VW-FAW factory manufactures three key engine components internally. The major concern of FAW-VW engineers is the risk of quality control issues of its components supplied by its suppliers. As this excerpt from the same interview with Colin, an engineer from VW-FAW Production Department shows:

“The major concern is that we do not control the manufacturing process of the components from our suppliers. There is the risk that there might be something wrong with some components. We inspect and reject any flawed components, but we have to stop our production line if we are short of components. Therefore, we provide component moulds to our suppliers to increase accuracy. We follow a very strict procedure to select and monitoring our suppliers.”

The process of increasing domestic production rate through building local suppliers network is driven by cost reduction requirement only. The pressure of domestic production also come from VW, as it controls the joint venture production departments. The joint venture has strategies to prevent opportunistic behavior from its suppliers. It internalises its key technologies such as the VW-FAW engine factory. Its supplier system includes suppliers wholly owned by MNEs in China. It relies on large numbers of indigenous suppliers that disperse its technologies. The joint venture provides moulds and some of the machineries to its indigenous suppliers, while maintain tight control of these machineries and moulds.

To the Chinese joint venture engineers and staff members, the goal of establishing a domestic supplier system is to localise production of VW models efficiently with low production cost. The knowledge absorbed through accomplishing this goal was to establish and manage a modern domestic supplier system effectively with transparent and consistent standards.

5.3.1.3 VW KPI system

The third production cost reduction goal is to adopt a modern performance management system. The individual performance assessment system in the FAW-VW and VW-FAW is based on the VW KPI (Key Performance Indicator) system. Engineers, staff members and managers have to fill an individual KPI form annually. The KPI system aims to quantify every individual's annual work target. The target varies according to different departments. For example, financial department staff have a target of annual fund allocation and target completion of procedure documents. Engineers working in the production related departments have production targets of their assigned section as well as targets for safe and non-fault production days. Engineers working in the R&D department have their target of model development and localization projects as percentage of their contribution in each project and so on. Each target item will be calculated as percentages of the individual's annual KPI. These targets are assigned at the beginning of the year and reviewed at the end of the year. It is filled by the individual employee under supervisor's guidance and signed off by his/her supervisor and manager. Department manager's KPI target is the department target. The manager then breaks these targets down and assign to individual employees. This excerpt from an interview with Peter, a staff from FAW-VW procurement department shows:

“A good annual performance is a completion of the KPI targets. As a result of the KPI system, the joint venture engineers, staff members and managers are very busy. The annual targets are breaking into targets of every month, every day and every 2-3 hours to each individual.”

The VW KPI system is adopted by the joint ventures to quantify individual performance goals. The production departments of the joint ventures are strictly following VW rules.

5.3.1.4 Low cost labour force

The fourth production cost reduction goal is to organize low cost and efficient labour production force. The FAW-VW's method is to employ assembly line workers on internship contracts and through third party employment agency. The FAW-VW has not performed well from late 1990s to early 2000s. To reduce operational cost, there were large layoffs during those years. The advantage of being a joint venture is that these layoffs were easily conducted compare to its state owned parent company. After these layoffs, the FAW-VW only employs few workers on formal contracts. As the market grow, the joint venture filled the production job vacancy with interns and contract workers. These workers were regarded as flexibility and low cost working force. However, it was raised by the FAW-VW and VW-FAW engineers and staff members in interviews as an issue. It was the first glimpse of tribal division in FAW-VW.

In a division of 20 workers, there are only 3 to 4 “formal workers”, 3 to 4 “contract workers” and the rest are interns. Contract workers have their insurance with their employment agency and only

earn basic salaries with no bonuses and benefits compare to formal workers (bonus could worth 12 to 24 months of salaries in a profitable year). Interns earn half of basic salaries, around 1,500 RMB (around 150 GBP) a month and have no insurance or benefit. The joint venture strong performance means its factories are producing at its maximum capacity, which is 3-shifts of 24-hours production at full capacity. That put great pressure on the working force. In 2012 during my interviews with FAW-VW and VW-FAW engineers and staff members, this was an issue raised as interviewees sensed that this cost reduction policy is potentially troubling. As this excerpt from the interview with Bill, an engineer from FAW-VW production department shows:

“There are formal workers who do not follow our instructions. Some would smoke during working hours in the factory which is forbidden. Some do not clean up their working areas as required. When there are problems with production, they often blame interns and contract workers. They do not do much as those workers and often leave more physical works to those temporary workers. There are tensions between formal workers and contract workers/interns. Workers report to us and we report to department managers. These tensions directly affect us.”

In the same interview with Bill, he revealed the reason why some formal workers are hard to manage.

“These “formal workers” are employed by FAW-VW under full employment contract. Some of them are experienced skill workers and some of them are employed because they have some sort of connections with FAW. No one wants to deal with them as you don’t know who they are related to. The department managers demand us to monitoring the production process. But we can’t discipline some formal workers whom do not follow our instructions. Most of these formal workers have been working in the joint venture longer than us, so some of them won’t take orders from us.”

FAW-VW and VW-FAW engineers in the production and quality control departments directly manage workers and act as intermediates between department managers and workers. There are similar situations at the VW-FAW engine factory. As this excerpt from the interview with George, an engineer from VW-FAW production department confirms:

“The interns and contract workers do more work than formal workers. We do not like this situation because formal workers have more experience and training. There are quality risks when interns have to do a lot of work... We do not like the tension it creates, the unequal pay make interns and contract workers less motivated.”

The joint venture engineers have described this situation as unfair and unsustainable. It violets the principle of equal pay for equal work. However, the problem has a deeper root, as this excerpt from an interview with Ann, a staff member working in the FAW-VW HR department shows:

“The HR department of FAW-VW is managed by FAW. FAW employs “contract workers” and

interns through employment agency and assign them to work in our factories. One of the key contributions of FAW to the joint venture is to organise efficient and low cost working force. We employ contract workers and interns to reduce production cost.”

The HR staff had defended the policies of employing interns.

“Intern workers are paid at lower salaries because they are not considered as skill workers. The majority of interns are recent graduates from tech schools and third tier universities with no previous working experience. We provide training and work experience for them. Their salary level is similar to other intern jobs they can get.”

When asked about problems around formal workers, why some workers can stay on and why do they have privileges, she answered:

“The issues around joint venture formal workers are historical issues. They were with the joint venture for a long period of time. They have endured the difficult period and now they have some privileges. China is a “人情社会” (nepotist society). It is inevitable that workers with more “resources” could stay. It is rare to employ any formal workers now. Most of our formal employments are engineers and managerial staff members.”

The interviewee’s answers had reviewed a key issue. The contract workers are employed by FAW because the joint ventures and VW do not want to be involved with employment issues. There are expectations from Chinese workers for VW as the MNE parent firm and its joint ventures to treat its working force with higher labour welfare standard. However, the VW assigned deputy department manager of the joint venture HR department are in charge of VW expat managers only. By not involve in the local employment process, VW and the joint venture avoid direct accusations of poor labour welfare standard but meanwhile enjoy the benefit of the low labour cost. In 2015, around 500 of 3000 FAW-VW temporary workers (contract workers and interns) had protested against the joint venture by surrounding the Courthouse of Changchun. In 2017, hundreds of FAW-VW temporary workers have filed law suit against the joint venture and their employment agency in court for violating Chinese labour laws (Deutsche Welle, 2017).

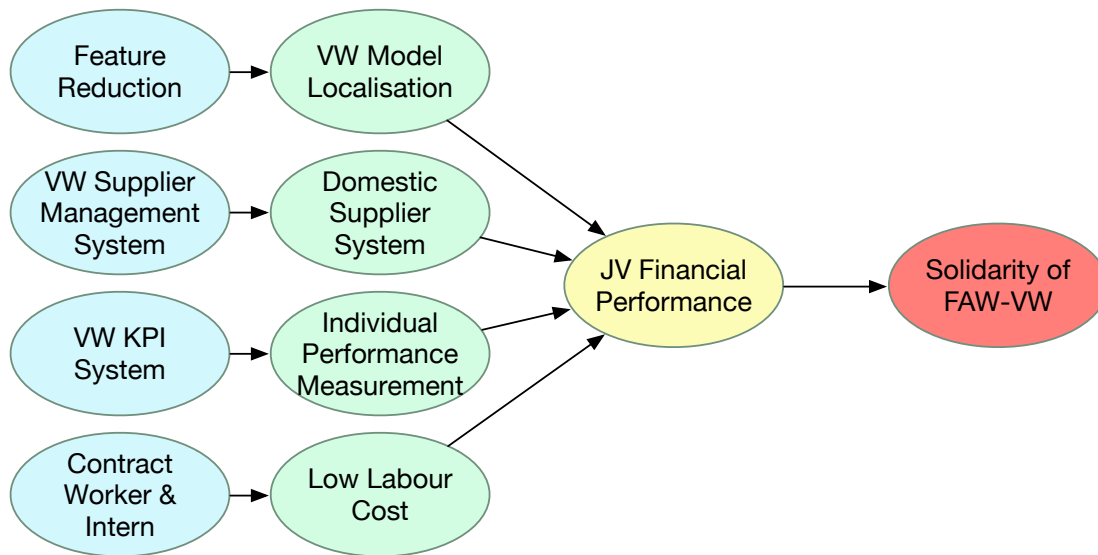
The issue around formal and temporary workers, and the irritations joint venture engineers demonstrated in the interviews showed the tribal division in FAW-VW. The formal joint venture workers are clearly not fitting to the solidarity of profit and efficiency from the joint venture engineers’ perspective. The interview with the joint venture HR department staff confirms the reason why production departments have to tolerate unprofessional behaviours from some formal workers. She normalised their privileges by reflecting to the Chinese nepotist culture. However, it is frustrating for the Chinese engineers who are under pressure to reduce production cost and to perform under the KPI system, to have to deal with unprofessional behaviours from some privileged formal workers. These privileges came from their connections with FAW, so the joint

venture engineers blame the situation on FAW. These formal workers clearly do belong to the tribe of FAW. This is the first evidence of a clear division between the FAW-VW tribe and FAW tribes.

5.3.1.5 Section summary

The top performance goal of the FAW-VW is a strong financial performance. This is the goal that act as the solidarity force of FAW-VW production divisions. Engineers working in the joint ventures are focused on this common goal. The operation of the joint ventures are designed to achieve the goals of low cost and high efficiency. As shown in the Figure 10, the joint venture’s management system is designed to achieve the goal through model adaptation and localisation; building and managing local supplier system; setting clear individual performance targets using the VW KPI system, and use contract workers and interns to reduce labour cost.

Figure 10: Solidarity and financial performance



There is very limited trace of FAW’s influence in the production departments of joint ventures. The only FAW influence in the production related departments is employing temporary contract workers and intern for the joint ventures to reduce labour cost. There are also some privileged formal workers employed because of their connections to FAW managers. Some of the privileged formal workers’ unprofessional behaviours frustrate joint venture engineers.

The performance goals and the operational management system of FAW-VW and the VW-FAW engine factory are similar. They both have modern MNE-like working environment. There are strong VW influences in the joint venture and especially in the production related departments. The engineers are working on VW provided technologies and models. They are managed by VW

appointed managers. They select and manage domestic suppliers following VW standards. Throughout my interviews, the joint venture engineers and staff members are transparent, direct and focusing on their individual goals. They are very clear on their specific individual performance goals. The important elements of a tribe are rules and identity. The joint venture production departments are following VW rules.

5.3.2 Solidarity, tribalism and joint venture learning

According to the IB and management literature, the key performance goals of the manufacturing divisions of the joint venture is to absorb and transfer knowledge to SOEs. Through analysing different kinds of knowledge that the joint venture engineers have learnt in their daily work. The aim of this section is to understand the purpose and content of the FAW-VW joint ventures' learning. It can be summarised into three aspects: the explicit knowledge of VW's technologies; the explicit and tacit knowledge of how to manage the operation of a modern automotive factory; and the tacit knowledge being a part of VW global technology development process. Through the structural social anthropological lens, the true meanings of these learning activities can only be understood by the relations to the ecological structure of FAW-VW.

5.3.2.1 Knowledge of VW's technologies

It is the VW's choice of which models and components to be produce by the joint venture. The FAW-VW board negotiates with VW of the technology transfer fee for each technology items VW offers to FAW-VW. After the negotiation, the process of technology transfers from VW to FAW-VW begins. Each technology transferred from VW to FAW-VW has been carefully managed with clear technology ownership. For example, the VW-FAW engine factory of FAW-VW, produces three VW engine models. The technology ownership of these engine models is different for each model by shares. The VW has more shares of the most advanced VW engine model produced by VW-FAW: EA888 1.8T and 2.0T. FAW has more shares of the EA211 1.4T engine model. The ownership of these engine models means SOE have the option to buy the 1.4T engine blue prints and production line in the future when FAW purchases 100% share of the model.

The manufacturing departments structure and production procedures of the FAW-VW are identical to the VW. Similar production procedure is followed by all member companies of the Verband der Automobile Industries (the association of German automotive industry). Once the model production planning is set, project nodes were strictly followed. A new product must pass the PT (production trail), then SOP (start of production) and so on. The first manager of the VW-FAW production department came from the VW engine factory of the EA888 model in Europe. During the planning phase of importing EA888 models to VW-FAW, the joint venture Chinese engineers

went to Gyor, Hungary for training, equipment inspection and testing before bring the machineries back to China. There is an international bidding and importation bureau within the joint venture group. All FAW-VW imported machines are purchased through this bureau after receiving approval from the Chinese government National Development and Reform Commission. The joint venture engineers' training and technology absorption continues after the machine is brought back to China. One of the engineer interviewees is a specialist in an imported quality inspection machine. The machine has a marble platform with an air suspending system to place the engine at absolute level without any vibrations to measure engine heads on the top. There are continual learning and negotiations after the technology importation because the imported machines do not always function properly as described. Here is the excerpt from the interview with Connie, who is working in the VW- FAW quality control department:

“With big industrial machines like this, it is easy to find some faults. We are consistently negotiating and demanding technology support from the MNE supplier. For a year, the machine has been used every day but it is yet fully functioning, the adjustment is ongoing in operation.”

This shows joint venture engineers are working with imported machineries and receive continuous technology support from the MNE suppliers. Through their daily work, they receive constant knowledge of how these advanced machines were designed and functioned. They also give feedbacks to the MNE suppliers. Joint venture engineers also showed great understanding of the VW technology through years of working with VW technologies and products. As this excerpt from an interview with George, an engineer working in the VW-FAW production department shows:

“As an engine expert, I can tell you about the innovations in our engine products. We have EA211 1.4T that we have produced for eight years and the EA888 1.8T and 2.0T model that had started production since last year (2011). The technology evolutions and improvements are visible. The condensation part was an extra component in previous models, now it is integrated in the main engine body. There are changed layout of components which is more rational and cheaper to produce. There are added features to boost performance too.”

Through the long history of the joint venture partnership, the influence of VW is visible in all production related activities in the FAW-VW. The VW provides the “white book” for FAW-VW as guidance when building a new factory or installing production line for a new model. The white book illustrates the factory/production line design to great details including the distance between each labour stand, how many steps for each worker to take to perform their task and the total number of screw spike needed to install the production line. The same white book is used across the world for building new VW factories. This standardization helps VW to manage productions and to provide instant technology support. The FAW-VW has also adopted the VW modularization production system to have more flexibility. Flexibility is important to modern auto production. In the past, one production line can only produce one model. After technologies importation, one

FAW-VW production line produces three models simultaneously through the systematic recognition function. One car shell arrives, the system automatically recognize it and instruct workers to install the marching components. These are considered key technologies VW transferred to FAW-VW.

When talking about VW technologies, joint venture engineers often refer it as “our” technology/engine/product/machine. They do not only know the imported VW technologies but also the latest VW technology developments through training and participating in the VW global technology development process. The engineers are proud of their knowledge in advanced VW technologies. I have sensed the proudness of working with advanced VW’s technology in all of my interviews with joint venture engineers. Such proudness is the result of solidarity provided by the VW’s superior technologies. The joint venture engineers want to be associated with the advanced technologies and see themselves as part of the VW tribe under the strong power of solidarity from the advanced technologies.

5.3.2.2 Knowledge of factory operation

Once the production line is installed, the joint venture engineers daily work focuses on factory production operation. There are three working shifts, 24-hours non-stop production at the FAW-VW and VW-FAW factories. The pressure of managing production and maintaining quality is high. Joint venture engineers working in production department come to work in the morning to meet with the head of their section’s night shift. Engineers then brief the department manager on production of last night. At the end of the working day, engineers brief the department manager on production during the day. As this excerpt from the interview with Colin, an engineer working in the VW-FAW production department shows:

“In the morning I come to work and asked about last night’s production in my sections. If these was no problem I feel more relaxed. I then go to the morning meeting where engineers and department managers discuss production problems and find possible solutions together.”

The routine task of joint venture engineers is to coordinate between the management and the workers. In the VW-FAW quality control department, technology workers are responsible of testing the engines produced, they then report the data to the engineers. Engineers are responsible to give orders to workers such as which components to test, how to test it and how many units to test. Based on worker’s testing result, engineers have to decide on how accurate the reports are and what actions to take if there are problems or potential problems. As this excerpt from the interview with Connie, an engineer working in the VW-FAW quality control department shows:

“On the assembly line, there are thousands of components from different suppliers, putting those components together is a delicate process. Sometimes, a good component is not the 100% perfect

but within the tolerable range of error that can be assembled. Sometimes, you may not be able to put all 100% accurate components together. As we get familiar with our product, you get to really know all components and its actual parameters range.”

As the interview with Connie shows, the valuable knowledge of technologies is not only in the blue print of the technology design, but in engineer’s experiences through the real world operation.

The challenging test for engineers and managers is when there are problems with production. The standard procedure is to continue production when fault units are detected. Engineers of the production and quality control departments would have urgent meetings to discuss the fault units and try to solve the problem while the production is ongoing. Engineers will make adjustments to the parameters of assembly line until the productions faulty rate is under control. The fault units will be packed and sent to the repairing section. This procedure is standard in the VW-FAW engine factory and the FAW-VW factory. In the FAW-VW factory, when there are faults with the cars produced off the assembly line the production will carry on. Those fault cars will be parked around the factory and waiting to be repaired. As this excerpt from the interview with Bill from the FAW-VW production department shows:

“The worst situation I have experienced was seeing more than 300 cars parked around the factory with faults. These cars are driven straight off the assembly line. It only took 7 hours to produce those units. In that situation, engineers and managers are under great pressure to detect and solve the problem as soon as possible. The pressure is visualized by seeing cars with fault keep coming off the assembly line and parked outside. Engineers are competing with time to find solutions and seek support from VW.”

The interview with Bill shows, it is valuable experience to encounter problems with productions. It is precious knowledge for engineers and managers to know how to stay focused, where to seek support and solve the problem under great pressure in these situations.

Manager of the quality control department has the right to cease production and put the whole production line on halt for further inspections. This is extremely rare scenario. There are strict rules about halt production, when the production line was off for more than 10 minutes, the joint venture CEO must be informed even at the midnight. That is because once the production line is stopped, to switch the production line back on, all machineries have to be reset and readjusted. FAW-VW relies on VW and MNE machinery suppliers’ support to do that, which would take weeks if not months. This shows engineers of the joint ventures do not fully control the technologies of the production line. However, they do accumulate experience from daily production and problem solving. They have knowledge in how to manage and monitoring daily production using advanced machineries and the VW production system. Relying on VW for problem solving also influence the sense of belonging to VW.

5.3.2.3 Knowledge of MNE global technology development

Although FAW-VW is a joint venture, it has been founded for more than 25 years and it becomes increasingly independent. The joint venture has gradually gained its own identity. As this excerpt from an interview with Jim, an engineer from the FAW-VW R&D department shows:

“The duty of the R&D department is to absorb the VW and Audi technologies to increase the domestic production rate of model components at low cost. So FAW-VW can continue to be a profitable independent business.”

Through decades of experience to absorb VW technologies and integrate VW models for the Chinese market, FAW-VW engineers possess great knowledge of the VW technologies and its Chinese target market. For example, the popularity of long wheel based models in China was first discovered by the FAW-VW engineers. That is why most MNE models are long wheel based in China now. As China became one of the most important market to VW. VW needs the knowledge of joint venture engineers to contribute to its global model development process. As this excerpt from the interview with Jim from the FAW-VW R&D department shows:

“We are more actively involved with the VW global model development process in the last few years. In the past, most of the VW model development were done in Europe. We get involved very late in the process. A VW global model development process takes about 40 months and we only get involved after 20 to 25 months. Now, there are a lot of co-development, we get involved much earlier and our involvement is no longer limited to the Chinese version but we contribute to the global design as well.”

The joint venture engineers are proud to be contributing and have influence to the global development of the VW models. As this excerpt from the interview with Mark from the VW-FAW TE department shows:

“In the past, VW only sells matured models to China, with blueprints, machineries and production line. The joint venture would make some changes to localize production. The common practice now is simultaneous development because VW recognized the value of the Chinese market and joint venture engineer’s knowledge and capability.”

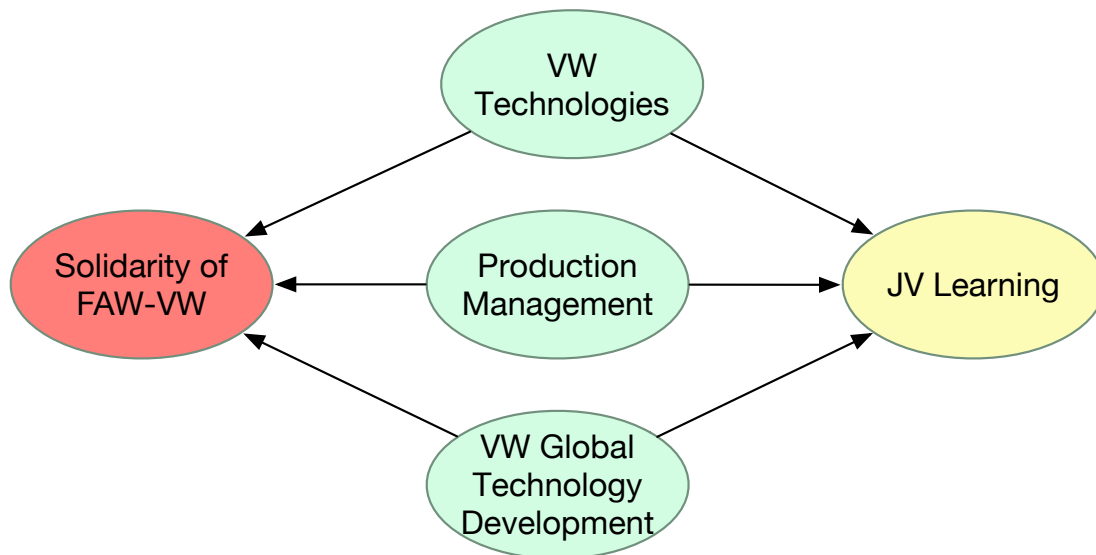
The joint venture contributions to VW has brought VW closer to the FAW-VW. There were research activities such as measuring and testing that the joint venture R&D department could not do independently in the past without the advanced machinery. To develop a model for the Chinese market, the R&D department had to order the car mould from Germany to design the outlook and interior with special VW clay. Due to the joint venture’s strong market performance and its contributions to VW global model development, VW has approved importations of research

measuring machines and mould materials to the FAW-VW R&D department.

5.3.2.4 Section summary

As summarise in the Figure 11, the knowledge accumulated by joint venture engineers through their work and training are 1. MNE's production and machinery technologies; 2. Modern factory production management and quality control; 3. MNE global product development process. FAW is absent from the joint venture learning process apart from negotiating the technology transfer fee with VW and providing the approval of technology and machinery importation. There is only one objective of the joint venture learning in FAW-VW which is to achieve strong joint venture market performance.

Figure 11: Solidarity and FAW-VW learning



Technological advantage of VW is a strong solidarity force of the joint venture engineers. Especially as the FAW-VW engineers are included in the VW global technology development team. Engineers interviewed were clearly formed a strong bond to VW. They are proud to be part of VW and distanced themselves from FAW. The strong solidarity of VW technology advantages and operational practices after 25 years had become the traditions of common descent, rules and identity that formulate a tribe.

5.3.3 Joint venture survival

Engineers and staff members of the FAW-VW and VW-FAW are confident in the survival of the joint ventures. Their confidence is based on three factors: 1. The MNE ownership restriction

regulation in China; 2. Strong market performance and strategic importance of the joint venture to all parent companies, which had led to the long-term joint venture contract renewal; 3. Stable joint venture management structure of daily operation and long term strategic planning.

Interviewees from FAW-VW and VW-FAW are confident that the joint venture will survive as long as the MNE ownership restriction regulation exists in the Chinese automotive industry. As this excerpt from an interview with Emma, a staff member from VW-FAW Finance Department shows:

“If there is no restriction on MNE ownership in the Chinese automotive industry, no SOE car makers can compete with MNEs. The market will be dominated by MNEs.”

The FAW-VW is a part of the Chinese government assets. Its ownership structure has been used as bargaining leverage in economic negotiations at the national level. The Chinese Premier Li Keqiang wrote an article to the German newspaper Die Welt during his state visit to Germany in 2014. He wrote “China will actively consider the VW requests of increasing its ownership share in FAW-VW. We are also hoping that the German government would permit Chinese firms to participate in the Germany high speed rail bidding” (Die Welt, 08/10/2014). During the 2014 state visit, the Chinese Premier Li Keqiang and the Chancellor of Germany Angela Merkel had signed the renewal contract of the FAW-VW joint venture partnership for 25 years. The then FAW CEO Xu Jianyi and the then VW CEO Martin Winterkorn had attended the signing ceremony (FAW, 2014).

FAW-VW engineers and staffs are confident in the long-term stability of their jobs. Their confidence is based on the strong market performance of the FAW-VW and its strategic importance to all parent companies. As this excerpt from an interview with Jerry, a staff from FAW-VW finance department shows:

“The joint venture is too big to fall now. We are too important to both parent companies because of the importance of the Chinese market and our strong market performance since the 2000s.”

Stable joint venture management structure and long term strategic planning also provide assurance to joint venture engineers and staff members. As this excerpt from an interview with Mark, an engineer from VW-FAW TE department shows:

“VW makes strategic planning such as building new factories and developing new models for every 10 years. All preparation work will evolve around the plan including how many generations of engine models to develop and the life cycle of each model. The joint ventures are part of the VW planning. Like VW, we also have the joint venture long-term strategic planning.”

The FAW-VW management also shows confidence in its survival based on its long term strategic planning. As this excerpt from an interview with Bill, an engineer from FAW-VW production

department shows:

“Although the board is still negotiating over the technology transfer fee. We have already started to prepare for production of the upcoming models. We are preparing for the 2017/18 model production. We need to make some changes to produce these coming models. All assembly sections including stamping, welding, painting and final assemble need to prepared for adjustments.”

The joint venture long term planning shows confidence of the joint venture in its survival. The joint venture engineers and staff members are aware of the joint venture’s strategic importance to FAW and VW. The joint venture also has a stable management system which enhance engineer and staff member’s confidence of joint venture survival. It has also showed the independency of FAW-VW. In the interviews, joint venture engineers and staffs generally have showed an attitude of independence of FAW-VW. Such independence demonstrates the boundary between the joint venture and its parent companies.

5.3.4 Tribe boundaries, achievements of goals and parent firms’ overall satisfaction

Through data analysis in previous sections, from the joint venture engineer and staff member perspective, financial performance is the most important performance goal of the FAW-VW and VW-FAW. It unifies the interests of the joint venture and all parent companies. FAW-VW has strong market performance for more than a decade. The aim of this section is to analyse its parent companies’ satisfaction to the joint venture achievements.

Through the interviews I have found an interesting phenomenon. Strong financial performance of the FAW-VW creates conflicts between parent companies and the joint venture. As this excerpt from an interview with Irina, an accountant from the FAW-VW budgeting department shows:

“The joint venture has achieved high profitability and strong market performance since 2005. The challenge became how to distribute the profit. There are internal conflicts to get more resources for each departments. There are external conflicts between parent companies. VW only had 30% and Audi only had 10% share of the joint venture. They have been pushing for more shares in the joint venture. FAW was stubborn to resist their requests. Consequently, VW and Audi were charging high technology transfer fee to the joint venture for new models and technologies. It is hard for the budgeting department because VW and Audi are constantly demanding for more advanced technologies and higher salary for MNE assigned employees.”

In the case of FAW-VW, the achievement of the common goal did not result in parent firm satisfaction. In contrast, parent firms are in conflicts around profit distribution. All parent companies want to take more shares of the profit from the joint venture and the joint venture itself wants to keep the profit for future investment. This phenomenon is caused by problem with the joint venture ownership structure, which do not reflect the parent companies’

contribution/importance to the joint venture from the VW and Audi perspective. Audi only has 10% share of the joint venture. However, FAW-Audi models make up nearly half of the FAW-VW annual profit and Audi can only take 10% of the total profit. As it was not possible to have more shares of the joint venture until 2014, Audi makes constant demands to the joint venture. Its demands include new FAW-Audi assembly factory, high technology transfer fee, higher salary for Audi assigned managers and engineers working for FAW-Audi. VW has adopted similar approaches too. As a result, FAW also charges higher than market price when selling land to FAW-VW. These conflicting behaviors damage the profitability of the joint venture. However, all parent companies are restrained to not let their conflicts compromise the operation of joint venture.

To manage and balance these conflicts between parent companies, the joint venture requires an independent and strong leadership from the joint venture management team. The former joint venture CEO An Tiecheng had been the CEO of FAW-VW for more than ten years. The managerial stability gave FAW-VW strong bargaining power and independence to grow and to develop. The strategy the FAW-VW management was to remain unbiased and balancing the conflicts by setting the priority goal to develop the joint venture itself. This strategy is accepted by all parent companies. As this excerpt from the interview with Irina from the FAW-VW budgeting department shows:

“The FAW-VW is living in the crevice between SOE and MNE. We have to bargain with both parent companies. To balance all interests, the priority of the joint venture is to develop the joint venture itself and not to priorities any parent companies’ interests.”

This “prioritize the joint venture” strategy is accepted by both parent companies, as the joint venture becomes too important to both parent companies. Although VW and Audi are charging high technology transfer fees and request advance technologies and higher salary, joint venture benefits from these investments too.

From the structural social anthropology perspective, this had demonstrated the independent identity of the joint venture, as well as the boundaries of its tribe. As the fundamental requirements of being a tribe, the human organization must have an independent identity and territorial boundaries. This demonstrated that FAW-VW employees sees the parent firms as threat when they demand to share more interests from the group. Like a tribal chief, as the long-term joint venture manager, An Tiecheng was protecting the interests of the tribe through negotiations with external superior tribes. In the next section, I will analyze in more detail of the Chinese engineer and staff member perspectives on joint venture management to further demonstrated this finding.

5.4 Tribes in FAW-VW: engineer and staff member perspectives on joint venture management

In the literature review chapter, I have summarised ten most recognised joint venture performance determinants from the past literature. These performance determinants are: control, parent companies' commitments, bargaining power, trust, cultural distance, conflict, resolution mechanisms, organizational justice, cooperation and goal congruity. All of these determinants are related to the management of joint venture. In the following sections, I will analyse from the Chinese engineer and staff member perspectives on joint venture management, to explore what do they think are the key determinants of the joint venture performance. This is to further demonstrate the independent identity of FAW-VW and tribes within it.

Control of the joint venture was regarded as the most important performance determinant by FAW-VW engineers and staff members in the interviews. Contrast to the literature of joint venture that focus on finding the interconnections between parent companies' commitments, bargaining power and which parent company has more control of the joint venture. Chinese engineer and staff member of the FAW-VW refer the joint venture control as joint venture independence in daily management and long term strategic planning.

The FAW-VW is in control of its daily management and strategic planning. This is regarded by engineers and staff members as an important and positive determinant of the joint venture performance. Most of the joint venture operational decisions were made within departments. Only long term strategic decisions, such as introducing new models and negotiating technology transfer fees is discussed in the FAW-VW board meetings. The FAW-VW board includes managers from FAW, VW, Audi and VW China. The power structure and decision making mechanism of FAW-VW prevent parent companies' conflicts sink to the operational level of the joint venture.

The power to individual departments to make decisions and operate independently encouraged band groups to be formed based on the unit of department. These bands have made up the joint venture tribe. For example, the FAW-VW technology director is a German. He is in charge of technology development. If there is a technology he thinks the joint venture needs to buy or develop, his suggestion needs to be approved by the joint venture board. Once approved, the board will negotiate with VW for the technology transfer fee. Thus, decisions made by the joint venture board are debated, voted, negotiated, planned and conducted. The decision making process of the joint venture takes longer than Chinese SOEs and private auto companies. However, it has also enabled FAW-VW to avoid issues such as rapid expansion and over production which are common problems with Chinese SOEs and private auto makers. As this excerpt from the interview with Jerry from the FAW-VW finance department shows:

“The decision making process of the joint venture is rigorous, cautious and slow compare to other Chinese auto companies. The Chinese government was encouraging auto companies to expand with cheap loans provided after the 2008 financial crisis. FAW-VW board declined the loan based on our long term strategic target and market projection. The joint venture had followed the decision making principle that production expansion must depend only on sale forecast.”

The joint venture strategic plans are made to every five years. In 2012, the planning period is 2013 to 2017. The FAW-VW five years’ plan include what are the potential develop to the existing models and what are the potential future models to be produced in the joint venture. Based on these information, the joint venture board could estimate the investment and adjustment needed to facilitate future production requirements. The joint venture then invests in land, human resources, training, production machineries, research equipment and advanced technologies for future model production.

Engineers and staff members have strong confidence in the decision making process. They believe that the decision making process of the joint venture is superior because of the rigorous discussion and long term strategic planning. The nature of the joint venture means all decisions must be negotiated and careful planned on the board level. It gives the joint venture stability and employees clear goals and expectations of future developments. As this excerpt from the interview with Jim from the FAW-VW R&D department shows:

“The change of leadership in the SOE and IJV won’t affect us, even the change of CEO of our own company won’t affect us much. As a joint venture, our company has long term strategic planning approved by the joint venture board. Unlike SOE and private companies, it is hard for individual manager to interfere with our daily work at the joint venture. That is a positive thing because R&D work need consistency.”

The joint venture literature focused on parent firms conflicts to take control of the joint venture. The structural social anthropology provides a new perspective on this issue. As an independent company, joint ventures would formulate its own identity and establish its own boundaries, just like a human tribe. In the case company of FAW-VW, the joint venture control mechanism has been institutionalized. VW assigned managers are in charge of production related departments and FAW assigned managers are in charge of service related departments. The strategic planning is done through the joint venture board. FAW-VW was given high independence to avoid potential conflicts of parent companies’ involvement in operational issues. The joint venture is more stable and isolated from managerial changes and conflicts within each parent companies.

Just like any tribe, conflicts still exist at the joint venture department levels. It is not direct clashes between parent companies but clashes of individuals. As this excerpt from the interview with Mark from the VW-FAW TE department shows:

“The technology director of the VW-FAW is a German. There are Chinese and German managers in the TE department (product development department). They sometimes are stubborn on their own opinions when these opinions clashes. These conflicts were about their individual differences in finding solutions for daily operational issues rather than clashes between parent firms’ interests. Once employed by the joint venture, everyone is working for the joint venture and want the joint venture to perform well.”

Therefore, to achieve a better understanding of the determinants of the joint venture performance, we need to go beyond the cosmetic parent companies conflicts. Analysing through the social anthropology lens, the case joint venture has self-sufficient profitability, strong external bargaining power and an independent management system that was forged in more than 25 years. It is just like any human tribe that has history to development its identity, set its rules and is self-sufficient as well as needing to deal with external pressures.

5.5 Tribalism: engineer and staff member perspectives on VW as parent company

As discussed above, FAW-VW engineers and staff are more familiar with the VW regulations and technologies. They want to be associate more with the VW. The aim of this section is to explore from joint venture engineer and staff member perspectives on VW as their parent company. There are two aspects of their opinions toward VW. One is their perspectives on VW as a company and the other aspect is their perspectives on VW assigned managers.

5.5.1 Insider or outsider? joint venture engineer and staff member perspectives on VW assigned managers

There are conflicts between Chinese managers, engineers and VW assigned managers. There are some common reasons emerged from the interviews with Chinese engineers and staff members. The key social anthropological question here is do joint venture engineers and staff see VW assigned division managers as insiders or outsiders of the tribe?

VW assigned managers are usually coming from a lower rank managerial position in the VW to take a higher managerial position in the joint venture. These expat managers are not only coming to work in a foreign country. They are also at a new position with more responsibilities. Some of the less experienced expat managers may have fear of losing control. As a result, they are obsessed with controlling every details. They want to know everything and interfere with every activities of the department. As this excerpt from the interview with Toby, the interpreter from the VW-FAW shows:

“As an interpreter, I can closely observe expat managers. Some expat managers are overwhelmed by the experience of working in China and for the joint venture. I can sense their insecurity and distrust. I don’t think those managers are like that back in Germany.”

During the research period of the joint venture, there were tensions between interviewed Chinese engineers and staff with a newly assigned German manager in the joint venture. When there is a new department manager, the department engineers and staffs want to know that person’s background, motives and connections to the VW to anticipate that person’s management style. This new department manager had worked as a manager assistant in VW China for five years. He has replaced the previous VW assigned department manager. The previous department manager was popular among Chinese engineers and staff members. He got promoted to the position of the CEO of VW-FAW engine factory. His successor was unpopular among Chinese engineers and staff members. As this excerpt from the interview with Toby, the interpreter from the VW-FAW shows:

“I have been working with a few German managers. From my observations, the most important ability for expat managers to settle here are real knowledge about the technology and experience of managing production. It helps the managers to build his/her confidence. The worst situation for the department is to have a manager who pretend to be confident by disagreeing with everyone just to show power. Whenever he felt his authority has been challenged, he will overreact. After a few years in my post, I can tell if a manager would do well in the joint venture after observing him/her for just a few days. Of course we all want managers to do well, especially me. It could be a nightmare for the department if we have a difficult situation of distrust.”

Toby’s analysis is shared by engineers of that department. As this excerpt from a separate interview with George, an engineer from the VW-FAW shows:

“The foreign manager we have now was the assistant of the previous CEO of the joint venture. He would attend meetings with the previous boss everyday but was not responsible to make any decisions. I think when you have observed the power for too long, once you have the power, you will use it to the maximum. There isn’t any difference on that between foreign managers and us Chinese. The situation was particularly bad because the current manager was the CEO’s assistant and suddenly there is no one controlling him as a department manager. In our department, all engineers are Chinese, there is no one he trusts in our department.”

Engineers have compared the current manager to the previous manager to analyse the differences and try to find the source of the current manager’s insecurity. As this excerpt from the same interview with George shows:

“His predecessor was also a foreigner; he was also very strict and had never worked in China before. But he had worked his way up from a VW assembly line worker to a manager. There is a system in VW that one can work his way up from a worker to an engineer and to a division manager

and to a middle manager, and to be a top manager. I think at some point, his education background and experience made it impossible for him to go any further in Germany, so the only way up for him was to come to China. Before he came to China, he had never worked outside Europe. But because he worked his way up, he has a great understanding of every procedure in the factory. He knew the controllable and uncontrollable factors. He knows how to manage people in a factory, when to be pushy and when to be relaxed.”

Compare to the previous department manager, his successor was exposed for the lack of experience of running a factory and fail to communicate with Chinese engineers for support. As this excerpt from the interview with Colin, an engineer from the same VW-FAW department talking about the new manager shows:

“Although he has a degree in engineering, he doesn’t understand the factory and the technology. There are parts in the component that deviation is tolerable. There are also parts that deviation is not tolerable and will affect functionality. The department manager has no knowledge of these technology details. He does not trust our opinions and experiences. His approach is that if he sees deviation in the report he will fail the component. And he labels that as high German production standard. He is unnecessarily stubborn and difficult. Not only that we sometimes feel awkward about him, other department staff feel awkward too, because there are various departments that have to cooperate with us. As we see it, his behavior has nothing to do with his nationality but purely because he is working in a production department and the scenario changes his personality.”

As the number of failed components produced are associated with engineers and workers’ bonus. Chinese engineers were seriously annoyed by his stubbornness. Through comparing the two department managers, Chinese engineers and staffs have concluded that the newly appointed manager’s lack of experience of managing production department and lack of technological knowledge had led to his insecurity which made the manager behave in a certain way. The source of his insecurity is the lack of knowledge and communication skills. This conclusion made by Chinese engineers and staff members in VW-FAW is also shared by engineers and staff members of FAW-VW. As this excerpt from the interview with Bill, an engineer from the FAW-VW shows:

“There are two types of VW assigned managers that I have encountered. One type is someone who understands the situation and care about finding solutions. If a problem occurred, he/she will try to understand the problem and find the solution with you. The other type always uses their so-called standards, expectations and way of working in Germany to require Chinese workers here. Those managers always require a time node on every detailed task in advance. Whenever there is a problem, the first reaction from them are asking for a time node. They want a specific time when the problem will be fixed. But problems cannot be fixed just because you set a time of which it must be fixed. There are many examples like this. Those managers also have a habit of wanting to measure everything about the product. Some of the measurements are a waste of time. But they won’t listen. I thought it was cultural differences in the beginning. Then I understand, it is a way

for those managers to push responsibilities to us. They do understand that their approaches won't work, but they want to make sure we take the blame if something went wrong. By giving a time node and detailed measurements, it feels like it is no longer their problem. It is like they are hiding under the camouflage of cultural differences. There are many conflicts like these. However, I believe we all want the joint venture to do well, because it is directly linked with our job security and salary."

Bill's analyses of the two types of VW assigned managers shows that the Chinese engineers and staff members of the joint venture see VW assigned expat managers as individuals. They treat the division managers as the tribal chief and the currency to earn their respect and obedience is experience of running a factory and technological knowledge. The 25 years history of FAW-VW has diluted the importance of national/cultural differences to the Chinese joint venture engineers. With the rich experiences of working with VW technologies, training by the VW, sharing/learning from senior engineers, joint venture Chinese engineers and staff members only analyse VW assigned managers as individuals. They have demand and expectation on the individual managers as people would have for the tribal chief. They demand leadership, knowledge and the individual to take responsibility as their leader. These scenarios were not considered in the joint venture literature, but it is a natural process from the social anthropological perspective. As this excerpt from the interview with Roy, an interpreter from the FAW-VW summarizes:

"When expat managers start working for the joint venture, we are in a process of building mutual understandings and trust. How well the process will go depends on that individual's experience and personality."

5.5.2 Joint venture engineer and staff member perspectives on VW as parent company

The production related department of the joint venture work around VW models and technologies. To introduce a new VW model to the Chinese market, the FAW-VW would work around time nodes by planning backwards from the on sale date. The SOP (mass production) will take place six to four months before sale and there are other time nodes before SOP. FAW-VW needs to localize the model for domestic production. A new model needs to get approval from Chinese government agencies such as the National Development and Reform Commission (NDRC), environmental protection bureau and so on. In generally, the joint venture needs to start planning more than 40 months ahead of a new VW model's launch. The Chinese engineers and staff members are working around VW models and technologies exclusively. As discussed in previous sections, I have a strong sense from my interviews that they are very proud of working with the advanced technologies from VW.

However, there are also conflicts between FAW-VW engineers and VW. VW gearbox technology was publicly criticised by the Chinese state media in 2012. The VW dual latch gearbox was not

manufactured by FAW-VW. The gearbox was supplied by VW so the joint venture just assembles the gearbox in its models. When the Chinese state media exposed the technological problem of the gear box, it states that the FAW-VW is the manufacturer of these models. The FAW-VW board decides that the damage was too big to manage. The joint venture requested VW to drop the gearbox technologies from the FAW-VW models for the model year. However, VW insisted that the joint venture should keep on using the same gearbox in the models. As every changes to FAW-VW models need the approval from VW, the joint venture had no choice but keep producing models with the same gearbox. Although the cost of the gearbox call back was covered by VW China. Joint venture engineers felt the brand name of FAW-VW is damaged because of the state media's report and VW's refusal to change. It has fueled Chinese customers' suspicion that the models FAW-VW produces in China is less safe than the same models made in Europe. In the case of the gearbox, they were wrong, because the VW gearbox was a global problem and the gearbox was not produced by FAW-VW. The FAW-VW engineers was frustrated with VW on a personal level. They blame VW's action of damaging the reputation of their tribes. In this sense, as discussed in previous section, although the production bands of FAW-VW are closer to VW. There are still clear tribal boundaries between the joint venture and the MNE parent company. As this excerpt from the interview with Jim, an engineer from the FAW-VW R&D department shows:

“Because it was on the national news, my relatives and friends ask me about the problem. We felt frustrated because we got blamed for problems which was not our fault. It is more frustrating that VW does not approve our plan to change the model. We are concerned that by not making changes, it will hurt our sale and further damage our reputation.”

Interestingly, in the same interview, Jim has also defended VW:

“Normally VW road test its models between ten thousand to twenty thousand miles and no problems were discovered... Compare to German technologies, the Japanese brands make much slower technology improvements. The production quality of German cars is superior in precisions. The key technologies of German cars are not visible but in fine mechanical details.”

Although his statement was biased and it was somewhat ironic considering the 2015 VW emission scandal. It shows the joint venture engineers are genuinely proud of VW's technologies and production quality. Even when frustrated with VW, the joint venture engineers still defend the VW technologies as that is the solidarity force of the joint venture tribe as discussed in previous sections. It shows that engineers are loyal to the joint venture and really care about the reputation of the joint venture as their tribe. If any external party, including VW, could damage the reputation and interests of their own tribe, they become external threats. That is the boundary of the tribe. As this excerpt from the interview with Bill, an engineer from the FAW-VW production department summarizes when asked about which parent company does he feel more belongingness to:

“For the sense of belongingness of corporate cultures, I think I belong to the FAW-VW. I do not

know what is the SOE corporate culture. I have never worked for the FAW. I think the FAW-VW has adopted the VW corporate culture, technologies and operational system. I am training to work with VW technologies. But I am proud of my work as a joint venture engineer.”

5.6 Joint venture engineer and staff member perspectives on FAW and indigenous parent learning

As analyzed in previous sections, FAW assigned managers are in charge of managing service related departments in FAW-VW. The exclusive contributions of FAW to the joint venture are: managing public and government relations, employ and organize low cost labour force, and managing sale channels. According to many engineers and staff interviewed, managing government relations and get government orders are the biggest contribution of FAW to the FAW-VW. As this excerpt from the interview with Peter, a staff member from the FAW-VW procurement department shows:

“Getting government support is very important to the joint venture. As the result of FAW’s work, some cities exclusively use FAW-VW Jetta as taxi. Central and regional governments used FAW-VW Audi A6 and Passat as official cars.”

As reviewed in chapter 4, learning through joint venture was the FAW’s official goal when establishing the joint venture. However, after more than 25 years of managing various long term market successful joint ventures with MNE partners. The reality of FAW’s market performance demonstrates a substantial technological and managerial gap between FAW and its joint ventures. Researchers have concluded that the joint venture arrangement in the Chinese automotive industry is likely to create a passive learning mode, and SOE as learners may be able to strengthen their production capability through such arrangement but leaving their project execution and innovation capabilities largely undeveloped (Nam, 2011). Zhao and colleagues have also quoted an IJV manager saying “We felt that our engineers’ abilities to design a vehicle from initial concept stage have shrunk tremendously...all we are doing now is to technically support the design of our foreign partner” (Zhao et al. 2005). The Chinese government is aware of these concerns. In order to shift learning from knowledge of manufacturing to knowledge of model development. Since 2010, the Chinese government has started to encourage auto joint ventures to produce its own indigenous models. The new industrial regulation stated that to build any new joint venture factories, the joint venture must introduce a domestically developed indigenous model.

However, most of these so-called joint venture indigenous models are based on MNE’s low end models sharing the same platform and components. GAGC-Honda’s indigenous model Everus S1 is a very basic version of the Honda City with a different exterior design. Dongfeng Honda’s indigenous model Siming is based on the 8th generation of Civic. Dongfeng Nissan’s indigenous model Qichen D50 is based on the older version of Nissan Tiida. SAIC-GM-Wuling’ indigenous

model Baojun 630 is a basic version of the GM Buick Excelle. There is little differences between the joint venture developed model and the SOE developed indigenous models like the FAW Benteng B50, B80 and S80, which are based on Mazda models, with the same engine and chassis system. There is just a different exterior design and even that was done through a MNE company.

During the interviews with joint venture engineers, many of them snub at the policy for three reasons. 1. There are ownership issues around joint venture developed models. MNE partners won't agree to do it in the long term because joint venture like FAW-VW are following MNE development and production procedures. There are quality concerns over joint venture developed indigenous model that may risk to harm the MNE and joint venture's brand reputations. 2. It would harm the profitability of the joint venture as it has to employ more engineers and setup new departments for indigenous model development. 3. If all joint ventures start to produce low end models, they will directly compete with Chinese SOE and private indigenous brands. That will actually damage those Chinese indigenous brands. That is why SOE parent firms are not so keen to push joint venture to develop indigenous models either.

These opinions from the FAW-VW engineers are valid because FAW-VW had developed an indigenous model in 2005. It has failed in the market and ceased production in its first model year. As this excerpt from the interview with Jim, an engineer from the FAW-VW R&D department shows:

"We have received help from VW in the development stage, they understood it was a political task for the joint venture and the FAW to develop an indigenous model. VW has hoped that it may compete with private companies. But we did not take it that seriously. It was a show to the public and the officials. It was not hard to design a model based on the technologies we have at the joint venture."

Jim argues that the process of MNE model production localization and making profitable cars are valuable knowledge of model development.

"The policy of developing indigenous cars on joint venture platforms is very difficult to implement. In reality, the design of a model is decided by the market. As a firm, it is not right to make unprofitable decisions because of a government policy. If the joint venture wants to produce its own low cost brand, it must be for the market than for politics."

The interview with Jim shows that motivations of Chinese engineers of the joint venture are market driven. This is further evidence to support the observation in previous sections that the solidarity force of the FAW-VW tribe is efficiency, profit and technological advantages. Although they understand the political pressure for FAW to develop indigenous brand, they think it is wrong to put this burden on the joint venture. From the interviews, it is hard to see how Chinese joint venture engineers could be enthusiastic about SOE learning and model development.

The FAW appointed deputy managers of production related joint venture departments are often promoted from Chinese engineers working in the department. Unlike VW appointed department managers who have employment contract with VW and the joint venture. FAW appointed deputy department managers only have employment contract with the joint venture. Therefore, FAW appointed deputy managers are also only interested in FAW-VW performance.

Tom is an engineer of the VW-FAW after-sale/service department. He has worked in Siemens (Continental), FAW and VW-FAW. In the interview he has compared his experiences of working in these companies. Tom had worked in Siemens VDO China until its automotive business was sold to Continental in 2007. He had worked in Continental for 6 years, doing R&D works in ECO, electric sensors, controller and TCO technologies. He was attracted to FAW, because of higher salary. He was employed because FAW wanted to do some R&D work on the electric control system. SOE tried to attract engineers specialized in the technology from MNEs. However, the project never took off because there was a change of management. The company has bought the whole system from a MNE supplier at the end. The project was seen as the last manager's project, so if the department keep spending money on the project the current manager would not get the credit. He wanted to buy the system immediately so he can spend the resources on his own project. As for Tom, there wasn't much to do after the purchase and the income level dropped because there was no bonus. His job turned from research to twist the purchased system to get some application patents out of it. Tom was frustrated, as this excerpt from the interview shows:

“This could only happen in SOE. Manager have great power to make decisions without any challenges. I left after about two years and started to work for the joint venture. I don't think I am suitable to work in the state-owned company because of my personality. I am quite active, I am an engineer and I had to do a lot of paper work in a state-owned company. I don't have any connections and the manager who hired me left. It became very difficult for me to do anything meaningful.”

According to researchers, within the knowledge networks, knowledge transfers through horizontal and vertical linkages MNEs made with local firms and institutions. Horizontal linkage spillover means local firms can improve their efficiency through observation or hire employees from their MNE competitors (Gorg and Greenaway, 2004, Wei and Liu, 2006). However, I was told by Chinese joint venture engineers that only very few engineers have left the joint venture or MNE suppliers to work for SOEs. Engineers normally change jobs between MNE suppliers and joint ventures. Like Tom, it is very difficult to adapt to the SOE once you got used to the working environment of MNEs and IJVs.

The FAW-VW is an affiliate of the FAW group. The FAW is only in charge of management on the board level, appointing CEOs for each joint venture. If FAW needs some engineering experts, it cannot summon the joint venture engineers to work for it. They have to attract these experts with

more money and higher position. There is no plan to send SOE workers and engineers to the joint ventures and get them working for SOE after they absorbed the joint venture knowledge. Only top managers are directly send by FAW.

I found the joint venture engineers and staff members' impressions of the FAW is blurry and absent. There was little trace of FAW in the life of FAW-VW apart from some arrogant "formal workers" and a mysterious marketing/sales department. There was a sense of distance between the joint venture engineers and the SOE. The attitude of not caring about SOE's learning and performance was obvious. As this excerpt from the interview with Jim, an engineer from the FAW-VW R&D department shows:

"Maybe managerial knowledge has been transferred, for example, the previous CEO of our joint venture worked here for 10 years and worked really well. He is now the CEO of the SOE passenger car company. But I don't think he can do much there because of the different environments. FAW and FAW-VW are very different organizations. The joint venture wants to sell more car, it is much simpler than FAW because everyone wants the same thing. FAW is a very deep pond, who knows what is underneath there."

I found joint venture engineers and staff members' attitude and emotions toward FAW are distanced and complex in general. As this excerpt from the interview with Jerry from the FAW-VW finance department shows:

"I have to coordinate with some SOE departments. I find their workers are very "flexible". There is no consistent procedure of doing things that SOE people follows... They are not doing so well in the passenger car market, I think they are investing a lot in developing Hongqi, using money earned the joint ventures."

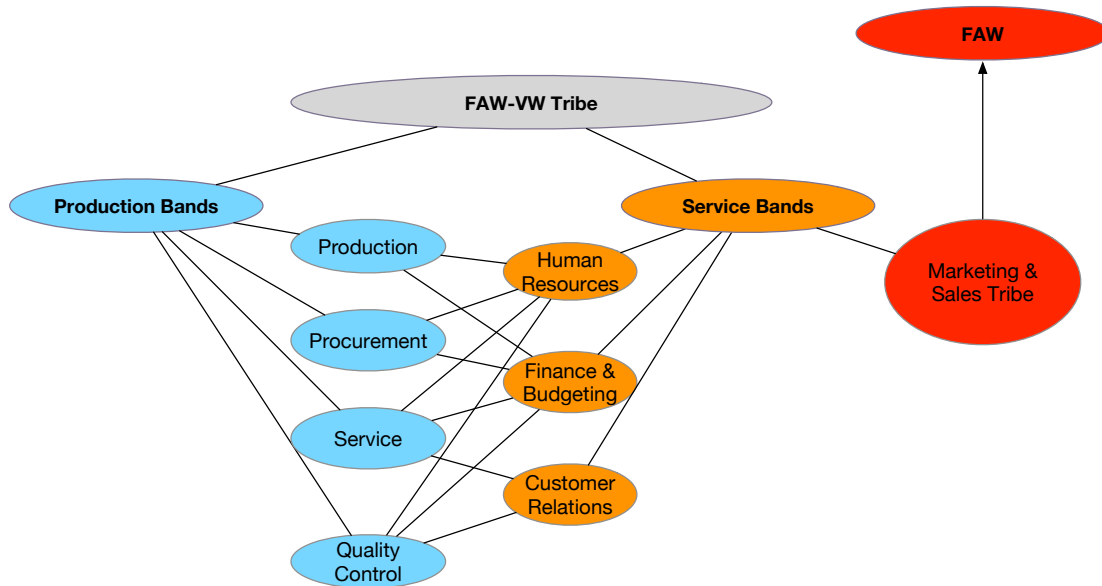
Joint venture engineers are aware of the situation in FAW. Although FAW-VW is part of the FAW group, their factories are in polarize situations. As this excerpt from the interview with Connie, an engineer from the VW-FAW quality control department, whose father is a division manager in FAW shows:

"Unlike us, many positions in the FAW are performing under working hours. We are always working overtime. The production rate in SOE is below its production capacity. It is only using 20-30% of its production capacity because its products are not popular in the market. Some of its workers only need to work 2 to 3 hours a day to perform the duty. But our workers only rest one day in two weeks and the production line operate 24 hours with 3 shifts. The FAW profit came from its joint ventures like us. The only SOE factories that are not losing money are the suppliers to the joint ventures."

5.7 FAW-VW tribal divisions and connections to FAW

The boundary between the FAW-VW tribe and FAW is very clear. FAW-VW engineers and staff are not interested in FAW's objectives. They are not part of the FAW tribe. They see FAW as a distanced and backward organisation they had to share their hard earned profit with. However, there was one department of FAW-VW that I found mysterious. In 2012, during my time at FAW-VW, I was very curious about the FAW-VW marketing and sale departments. I have read from the news that there was a Singaporean manager from VW who was controversially appointed by FAW as the head of sales department of the FAW-VW from 2006 to 2008. Traditionally, the post is assigned to FAW appointed Chinese managers. He tries to reform the joint venture sales department by establishing a new sale networks for FAW-VW manufactured VW and Audi cars. The joint venture sales department performed very well under his leadership, but he got sacked only after two years. Even though he was appointed and had been backed by Zhu Yanfeng, the president of the FAW. There were speculations around his sacking in the industry. I have asked a few officers and engineers of the joint venture about this manager. I have not received a straight answer. They were not willing to talk about that manager or anything about the joint venture sales department. Unlike other departments which I could find staff willing to be interviewed through official channels as well as be introduced to me by engineers. I could not find anyone from the sale department who is willing to be interviewed by me. More interestingly, I couldn't find anyone from the production and service departments of the joint venture who was willing to introduce me to staff in the marketing and sale department. Almost all of my interviewees were visibly alarmed and uncomfortable when I asked questions about the sales department. I was puzzled about why the joint venture sales department was such a sensitive topic at the time. There must be something unusual about the sales department. I have later found the answer to my question and will discuss further in the next chapter.

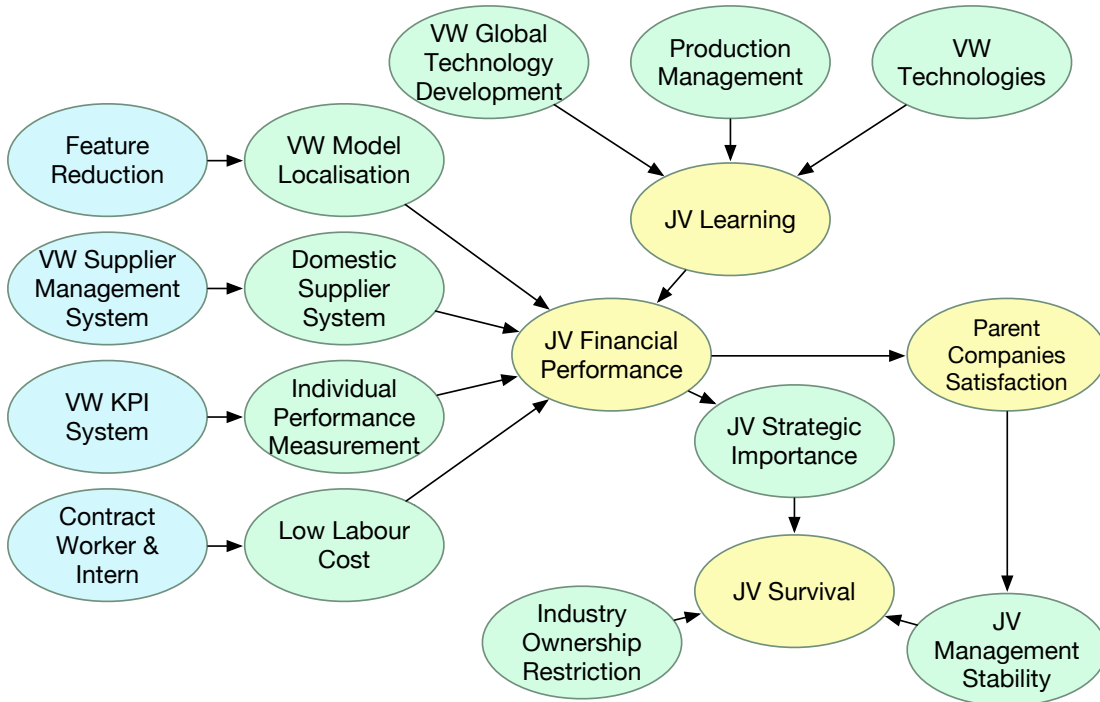
Figure 12: Tribal divisions in the FAW-VW



Through analysis of the interview data, we can determine that FAW-VW has all the key features of a human tribe. As shown in figure 12, it is made up by production and service bands. All of these bands are independent and also interconnected. The marketing and sale department is an except, it seems to be isolated from the tribe. These bands and the individuals are unified under the solidarity power of profit, efficiency and advanced technological capability. The FAW-VW tribe has its own tradition, identity, rule and boundaries.

5.8 Chapter Summary

Figure 13: FAW-VW performance and determinants



The figure 13 summarized the FAW-VW performance and determinants analyzed in this chapter. China is the largest and most profitable market for VW since 2010. This has made FAW-VW strategically important to VW and FAW. Against the joint venture literature arguments that parent companies want more control of the joint venture as it became strategically important (Aulakh, Kotabe & Sabay, 1996 Beamish, 1993, Li, Lam & Qian, 2001, Lyles and Salk, 1996, Tsang, 2002, Aguilera, 2006). In the case of FAW-VW, its strategic importance and high market performance had given the joint venture more independence and bargaining power with its parent companies. Through data analysis I have found that although the FAW-VW board of directors are made up by managers assigned by parent companies. FAW-VW has formed boundaries to isolate parent companies conflicts from the joint venture. The joint venture has fought off the attempts to take more resources from its profit by its parent companies.

Anderson in 1990 suggested that joint venture should be evaluated as independent entity rather than parent's subsidiaries. If there are conflicts between the interests of joint ventures and the parent firms' interests, joint ventures will seek to maximise their own interests rather than the parent firm's (Anderson, 1990). From the structural social anthropology perspective, the joint venture is just like any other human tribes. It is natural for human beings to form tribal organisations to protect their interests and distinguish themselves. From the interviews, the joint venture Chinese engineers and staff treat the European department managers as part of the tribe. The FAW-VW tribe is not defined by culture backgrounds, nationality and race.

The role of the production bands in the ecological system of FAW-VW are not the reservoir of knowledge to SOE as assumed in the joint venture literature. Unified under the solidarity power of profit, efficiency and advanced technological capability, joint venture engineers have effectively absorbed VW technologies and VW production management system. Their knowledge and experience directly contribute to the goal of FAW-VW tribe only.

Chapter 6: The ecological system of FAW: the revived sacred and profane dichotomy, sacrifice and tribal corruption

6.1 Chapter objectives

There are two objectives of this chapter. One is to present the FAW engineer, staff member and manager perspectives on the FAW performance goals, through analyzing the priorities of their daily work and objectives. The second objective is to construct the genuine ecological system of FAW through structural social anthropological lens using secondary data unveiled since 2012.

Interviewees of this chapter include the deputy head of the FAW R&D department, three engineers from the FAW R&D department, one division manager and one engineer of the FAW passenger car production department; a staff member from the FAW passenger car procurement department, an accountant from the FAW group finance department. I have also interviewed managers of various indigenous and MNE suppliers, government regulators and industrial technology experts to equip me with technological and industrial knowledge to conduct and verify my interviews with FAW interviewees. For the purpose of anonymity, all interviewees are given English code names to protect their identity.

Table 6 list of interviewees

FAW	Position	Code Name	Age Group
R&D Department	Deputy Head	John	40-50
R&D Department	Engineer	Mason	40-50
R&D Department	Engineer	Emily	30-40
R&D Department	Engineer	Liam	30-40
Production Department	Division Manager	Jacob	40-50
Production Department	Engineer	James	30-40
Finance Department	Accountant	Sophia	30-40
Procurement Department	Staff	Lucas	30-40
Indigenous Supplier			
1	Director/ Professor	Andy	40-50
2	Engineer	Bob	30-40

6.2 Hongqi model development 2005 - 2015

As reviewed in chapter 4, FAW has resumed Hongqi production in 1996. The Hongqi CA7220 model was developed based on Audi 100 model with the Chrysler 488 engine and was sharing FAW produced Audi components. The CA7220 model was the most commercially successful Hongqi model. In 1998, FAW had launched an updated model of the CA7220 named Hongqi Mingshi with more advanced technologies like ABS, air bags, steering assistant and central lock. The updated model has a FAW developed engine, CA4GE based on the Chrysler 488 engine. FAW had made a total profit of 6.6 billion Chinese RMB on Hongqi from 1996 to 2006. The model was seen as a low cost version of the Audi 100 model manufactured by FAW-VW. In 1998, the Hongqi CA 7460 was developed based on the Lincoln Town Car model. It was a joint development product by FAW and Ford. The design of CA 7460 was identical to the Lincoln Town Car model from exterior to interior and the powertrain. All components were imported from Ford and assembled in FAW factory. It was powered by the Ford 4.6 V8 engine. It was designed to be a luxury saloon. The model was a total market failure. FAW had only sold less than 100 units in 2000, the model was taken out of the production and was produced on order only. In 2000, using Audi 200 chassis system and Nissan V6 engine FAW developed the Hongqi century star. In 2004, Hongqi new Century Star model was launched. It was powered by Audi 2.4L V6 engine. In 2006, the Hongqi HQ3 model was launched. The model based on Toyota Crown Majesta with a different exterior designed by an Italian company.

In 2008, FAW has developed the V12 CA12GV engine model for Hongqi HQE. Based on CA12GV engine, FAW has developed V8 and V6 engine models and an automatic gearbox. In 2008, Hongqi Century star and Mingshi were discontinued and HQ3 was produced base on orders only. There were a total of 14,525 units of all Hongqi models sold in 2004. In 2008, the sale was reduced to less than 500 units. Although the CA12GV engine development was a major achievement of the FAW R&D centre. There was no Hongqi models available for the V8 and V6 engines. The Hongqi HQE model with the V12 engine was priced at eight million RMB (eight hundred thousand GBP) in 2009. Not only its exterior design was identical to the Rolls Royce Phantom model. It was also more expensive than the actual Phantom. This staggering price tag was heavily criticized by the Chinese state media (Xinhua Net, 2010).

In summary, from 1996 to 2011, FAW had tried to work with Mercedes, Chrysler, Audi, Ford, Toyota and Nissan to develop the Hongqi model for the market but with very limited success. As discussed in the charter 4, former FAW CEO Zhu Yanfeng famously said, Chinese indigenous brand need to endure loneliness for 20 years. Under his leadership, FAW management concentrated on developing its joint ventures and make FAW a profitable, self-sufficient business. In 2010 when Xu Jianyi came back from his government post to succeed Zhu as the CEO of the FAW, he said FAW will develop indigenous models at all cost. The Hongqi models had entered a

new era. From the structural anthropological perspective, the new sacred and profane dichotomy was constructed.

In 2011, FAW announced that a development team of 1,600 FAW employees was formed to develop Hongqi models. The R&D spending on Hongqi models development were budgeted at more than 22.34 billion RMB just for the first four years. In 2012, there were two brand new Hongqi models launched. Based on Hongqi HQE, Hongqi has developed the Hongqi L5 model on a new L platform. A development team of 1,600 people and RMB 22.34bn budget fit perfectly to the sacred and profane dichotomy of Hongqi summarised in chapter 4. The only factual difference between FAW making Hongqi for Chairman Mao and for Chairman Xi is that in the 1960s, FAW only had excessive manpower and in 2012, FAW has manpower as well as money to burn. Money earned through its joint ventures.

In 2012, when I interviewed John, the deputy head of the FAW R&D department who oversees the safety features design for the new Hongqi models in 2012, it was the upsurge of the new Hongqi model development. It was a key reason why I could have gained access to the FAW R&D centre and John. My identity was an industrial analyst working for a multinational consultancy company. John was pleased that there was international attention to the new Hongqi models development. John has started working at FAW in 1984, one of the last generation of engineers who have participated in manufacturing the last generation of the old Hongqi model in the 1980s. As discussed in chapter 4, it was a great political asset and John wears it like a badge. He disapproves the attempts to marketise the Hongqi model based on MNE models in the 1990s and 2000s. As this excerpt from the interview with John shows:

“The previous attempts to marketize Hongqi through direct collaborations with MNEs failed. Hongqi has lost its identity and status as the Chinese state car. Look at Mercedes S-class and Audi A8, the designs are continual. Hongqi should have been the Mercedes S-class of China. That is why the L5 model is going back to the classic Hongqi era with modern technologies.”

In the interview with Emily, an engineer participated in the Hongqi L5 project, had given me a detailed explanation on the design of the new Hongqi L5 model. The exterior was identical from its ancestor, the 1965 CA770 model. The L5 model is 5 meters long and weighs 3.2 tons. The front grill has 36 straight chrome lines waterfall style intake. There are big round headlights, identical to the classic Hongqi design. The L5 model also inherited the high front low tail boat shape design. The high front design symbols that the Chinese head is up, it shows the confidence of the nation. The tail light design took the shape of the hanging light of the Chinese royal palace. The back grill took the shape of the Tiananmen Gate and the four chrome lines on each sides represent “四平八稳” the old saying of four is smooth and eight is stable, a blessing for the stability and development of the nation. This is the new sacred and profane dichotomy of Hongqi at its full swings again. The shape, the declarations, every little fine details of the car is politicalised. Like John said, Hongqi is no longer a cheap version of anything. Hongqi is heading back to its glory days.

The top safety features on Hongqi were designed to match the US President Cadillac. There are three layers of protection, the anti-rocket armour, the anti-chemical and biological weapons protection and bullet proof tires. The engine was the CA12GV 6.0L V12 engine and has the torque of 550 Nm. The large engine design was for safety reason too, so passenger could get away from danger scenarios quickly. The model has two central control units of the engine and the gearbox to guarantee safety. It has bullet proof tires that can run at 50 mph for 8 miles on rims only. The interior design was to create a luxury VIP experience, there are Chinese elements for example the door handle has jade in it. The shape of the seat headrest took from the emperor's dragon chair.

The design of the Hongqi L5 model was clear that the FAW engineers had gone back to design Hongqi for national leaders. "Develop indigenous models at all cost", FAW has gone back to make car fit for the emperor, again. A departure from the 1990s and 2000s models for the mass market. As this excerpt from the interview with John shows:

"The design of L5 was inspired by the CA770 model. The goal was to earn back people's respect for the Hongqi model. To remind people the real identity of the Hongqi, the state car of China. So we want people to know at the first glance, Oh, that is a Hongqi."

From my interviews I have seen signs that FAW engineers working on the L5 model development are proud of their work. The office corridor of the R&D centre hangs pictures of national leaders visiting the FAW factory, pictures of Chairman Mao, President Deng, Jiang and Hu riding in Hongqi models for military parade and pictures of national leaders shaking hand with past FAW managers and engineers. The solidarity force of Hongqi has been brought back to FAW. Engineers working on Hongqi can be proud again, as they are working on a sacred cause with abounded resources.

As reviewed in chapter 2, that is the function of ancestor worshiping to human groups. Ancestor worshiping can enhance unity and identity of a human group as its social functions (Ahern,1973). The ancestors are often portrayed in glorified myth to generate a sense of pride and unity. The pictures on the wall shares the same function.

I have interviewed Liam, an engineer from the R&D department, at his home. There were pictures of the Hongqi L5 development team taken with Xu Jianyi, the CEO of FAW and picture of Liam shaking hand with Xu. These pictures were put together with his family photos on the living room wall. There was the scale Hongqi L5 model car in a glass box on his bookshelf. He is genuinely proud of his work on developing the Hongqi model. This pride is based on that the national and foreign leaders will be riding in the Hongqi model. The L5 development team has gained a prestige status in the FAW. As this excerpt from the interview with Liam shows:

“L5 model development was the top priority of the FAW group. I am proud to be part of the model development team. The company president directly lead the model develop team. He had visited us many times. The model is very important to FAW because national leaders will ride in our model.”

Such important status of the development team come with financial rewards too. When asked about the engineers working hours, Mason, a senior engineer of the L5 development team said:

“In the past, the priority of the previous FAW management was not indigenious model development on this scale. The current management has prioritised the development of Hongqi model. We got much busier in the last two years and all R&D engineers have got a pay raise with more bonus and overtime pay”

However, different from the old sacred and profane dichotomy of Hongqi before the 1980s, John and FAW engineers constantly denied that the L5 model was designed for the national leaders only. As this excerpt from the interview with John shows:

“The L5 is designed as a state car for national leaders and also for the market, because private customers can order L5 models too.”

Therefore, the exclusivity of Hongqi is no longer a sacred status that is official. This change from the old sacred and profane dichotomy of Hongqi is the result of 30 years of economic reform. However, the fact that rich private customers can order a Hongqi L5 does not make it a product for the market. The market strategy of the Hongqi L5 model John explained was incredibly simple the:

“The central government in China will make decisions to support FAW by order the new Hongqi models as official cars. Since the 1990s, officials in the central and regional governments were ride in Audi and VW models manufactured by FAW-VW. It has boosted Audi’s brand awareness in China. Business managers in China always follow what government officials wear and ride. We are redesigning Hongqi as a Chinese luxury car with more luxury and more Chinese characteristics than MNE models. Once private luxury car buyers see national leaders ride in L5, they will buy L5 too.”

In 2013, the Hongqi L5 was first used as the state car for the diplomatic mission of the President of France, Hollande state visit to China. The reason was that the first diplomatic mission of the old Hongqi model in the 1960s was for hosting the President of France too. In 2014, L5 was the state car for the 22nd APEC economic leaders meeting. However, there large government orders for the Hongqi models John was certain for, never came. Due to the anti-corruption movement and government official car reform, Hongqi L5 model was used for diplomatic and military parade missions only.

In 2012, FAW has invested 24 million RMB to build a 600 square meter flagship dealership called the “Red House” in Beijing next to the dealerships of Rolls Royce, Bentley and Aston Martin. From 2012 to 2014, Hongqi has opened luxury Hongqi dealerships in nine major cities in China. In March 2014, the CEO of FAW passenger car sale department, Zhang Xiaojun had told journalist, only when Hongqi is successful in private car market, then FAW can consider it is a real success (Southern Weekly, 2014). It did not succeed in any market, and Zhang got arrested on corruption charges in 2015. Since 2013, priced at 5 million RMB per unit, there was only 21 Hongqi L5 model sold to private buyers (China Business Journal, 2015). In 2013, FAW had launched a much cheaper Hongqi H7 model priced at 450,000 RMB. However, it was not based on the L platform and less than 5,000 units of Hongqi H7 models was sold in 2015 and less than 3,000 units were sold 2014 (China Business Journal, 2015). The high R&D spending was to develop the new L platform, but the L platform was designed to produce L5 model only. As this excerpt from the interview with Jacob, a division manager of the FAW production department shows:

“The L platform could produce one unit of L5 per day, workers need more time to hand adjust the panel gaps. The platform is only used when there are orders.”

It was clear that the Hongqi L5 model was the most important development project for FAW. Considering the high R&D spending on Hongqi since 2012, L5’s production cost is much higher than its 5 million RMB selling price. Why spending all the R&D resources on an ultra-luxury model rather than a low cost mass production model that is more competitive in the market? How can anyone really believe that the L5 model could be successful in the market? There are three possibilities: 1. FAW managers genuinely believed that L5 could be successful in the luxury car market; 2. they genuinely did not understand that simply allowing private buyers to order the model and building ultra-luxury dealerships are not marketization of the model. Audi, VW and Mercedes models are successful in China because they offer desirable design, top quality materials at competitive price. Not because government officials ride in them; 3. FAW have developed the Hongqi L5 model for the national leaders only with all its resources. But for some reason they do not want to admit that was the only goal.

International business and management literature would likely to explain this scenario as the lacking of capacity, the lacking of experience of marketization, the lacking of knowledge of the luxury car market, the incompetence and inefficiency of SOE. However, through the structural social anthropology lens the answer is simple. The sacred and profane dichotomy of Hongqi since the 1960s, made Hongqi the totem of FAW that represents serving the scared power of the party leaders. The first generation FAW managers understood the value and power of Hongqi to the tribe of FAW. Their sons and daughters, the second generation FAW managers also understood the value and power of Hongqi as they become tribal chiefs. In the interview with John, and in other interviews as well, what John really meant say was, once people see the national leaders riding in the new Hongqi L5 model, FAW is back to the political prime again.

The next question is, developing a luxury model usually requires the combines the best technologies of an auto company. It takes years of experiences and R&D to develop a luxury model. How did FAW overcome the technological barriers to develop the L5 model? How did FAW overcome the embarrassment of old Hongqi's sacred status with low reliability issue?

To find the answer to these questions, the next section explores how FAW developed its advanced safety technologies to achieve the indigenous model development of Hongqi.

6.3 FAW technology development

As discussed in Chapter 4, technology development of the Chinese indigenous auto company is the priority target of government industrial policies. The official reason of the foreign ownership restriction of whole car manufacturing company in China as stated in the Automotive Chinese Auto Industry Policy 1994, 2004 and 2009, was to protect the indigenous brands from unfair competitions and to be able to develop advance technologies to compete in the domestic market. The advanced driving assistant system (ADAS) technologies used on Hongqi L5 were the important technological step towards autonomous driving which is the future of global automotive industry. In this section, we will review and analyse the primary interview data collected around the development of FAW ADAS technologies. It provides answers of how does FAW develop Hongqi technologies? Where does FAW get its technologies? Why does FAW develop the technology in this way?

The Advanced Driving Assistance System (ADAS) is commonly referring to six technologies:

1. Adaptive Cruise Control (ACC): Based on radar or laser sensor to follow the vehicle in front and automatically adjust the distance and speed accordingly. The system can bring vehicle to a full stop with automatic stop/start function. ACC technology is the foundation of autonomous driving, which regulates the vehicle speed by controlling engine control and braking system.
2. Collision Avoidance System (CAS): Based on radar, laser or camera sensors to detect an imminent collision under a certain speed. Once the vehicle is under the threat of collision, this system would provide a warning to the driver, and automatically apply the break and steering. CAS could be combined with ACC using the same sensor system.
3. Lane Departure Warning (LDW): Based on video or laser sensor to sense and predict a lane departure, this system warns the driver and/or automatically adjust the steering to keep the vehicle in lane.
4. Blind Spot Detection (BSD): Based on ultrasonic or radar sensors on the side and rear of the car. Before and during a dangerous lane change process, BSD system will warn the driver and/or automatically adjust the steering to avoid collision.
5. Park Assist (PA): Based on ultrasonic and/or camera sensors that help drivers to park their vehicles based on visible and audible warnings with automatic steering.

6. Night Vision System (NVS): Based on near or far infrared camera sensor to enhance the perception of the driver in dark light conditions.

In 2012 during the interview period of this thesis, the ADAS technologies were the latest automotive innovation that starts to equip in luxury vehicles. The technologies are dominated by a few MNE suppliers. However, there were great interests from auto makers to develop its own system to be competitive in the autonomous driving competition. Here were some key technological barriers of the ADAS technologies: It is challenging to build the system on a platform that can facilitate the need of processing intensive calculations with low energy consumption and avoid overheating issues. The solution to this challenge is to reduce the size of the processor to fit into the CMOS (complementary metal-oxide semiconductor) image sensor and smart cameras. The common method was to install processors within the sensors, which are spread around the vehicle and thus won't increase the workload of the vehicle central control platform. However, this system requires higher performance from the current solution of digital signal processor (DSP) and field-programmable gate array (FPGA). Traditional DSP has limited parallel processing capability, with increasing working rate for more applications, DSP requires more power and must be more heat resistant. FPGA has strong parallel processing capability than DSP but is harder to programming, which often requires reduced instruction set computing (RISC) to post processing the data. FPGA also requires high energy consuming, it is too costly and too big. The APEX ICP (Image Cognition Processors) system combined RISC with single instruction multiple data (SIMD) processor APU (Accelerated Processing Unit), which can conduct parallel processing for imagine and analysis. The DMA (Direct Memory Access) controller could efficiently move the data through the system and to prioritize actions. APU has inter memory for every internal calculation unit, which can completely process external image data from outer memories internally. This technology can significantly reduce the numbers of data exchange required between external and internal memories, thus save energies with adequate calculation performance. APEX must work independently from other parts of the SoC (system on chip), which allows the rest of SoC to work at a low frequency to save energy and reduce size.

Different MNE suppliers use different solutions to these challenges. There were great interests from Chinese automakers and suppliers to develop the ADAS technologies so they can be competitive as it is widely predicted by the automotive industry experts that these technologies like seatbelt, airbag, ABS (antilock brake system), and ESP (Electronic Stability Program) will eventually become mandatory.

Before the FAW interviews, I have interviewed various MNE suppliers, Chinese automakers and Chinese indigenous suppliers to fully understand the market and technological development of the ADAS. Andy is the founder of a leading Chinese auto indigenous supplier of ABS and ESP system. Andy is also an automotive technology professor at a top Chinese University. He is a technology and market expert of auto safety components in China. His company has a long interest in ADAS research. He has introduced the market situation of Chinese indigenous supplier in the interview.

As the leading indigenous supplier of ABS and ESP system, his company had survived several price wars with MNE suppliers. In 1996, the price of MNE supplied ABS was RMB 6000-7000 in China. It was a new technology for high-end cars at that time and MNE suppliers are in a dominant position. Andy has started to research ABS technologies in 1996. In 2004, the price of the market leader, Bosch's ABS was RMB 1,500. Andy's company has developed its ABS technology that sells for the RMB800. His company starts to take orders from Chinese automakers. In 2005, Bosch had reduced its ABS price to 1000 RMB. As Andy's factory expands to 500,000 units of production capacity, Bosch further reduced its ABS price to 500. The cost advantage for Bosch is large. Its production cost expands across the globe and its ABS product is at the end of the product cycle. Andy's ABS costs 400 to produce. He thinks that Bosch ABS production cost is around 400 too, but Bosch could afford to start a price war to squeeze Chinese indigenous suppliers out of market.

The ADAS technologies are at the same development stage like the ABS in 1996. Only ADAS is more costly and challenging to develop for indigenous suppliers without support from Chinese automakers. As this excerpt from the interview with Andy shows:

“Our ACC technology is matured, but there is no Chinese automaker using indigenous supplied ACC yet. Chinese automakers won't buy technologies from us unless we are very price competitive.”

This is surprising because almost all major car manufacturers have to establish and manage an ingenious supplier system for its vehicles to reduce cost. It is in the long term interests of the indigenous automakers to support indigenous suppliers to develop technologies like ADAS so the market price of ADAS technologies will not be dominated by MNE suppliers. Although as a Chinese, I can understand Chinese customers' preference of foreign made products. But as a Chinese automaker, it is a matter of survival to build the domestic supplier system. Andy's company have proved its research capability as a leading indigenous supplier. However, from the interviews with various Chinese indigenous suppliers, I have found there is a widespread doubt over the R&D capability and production quality of the indigenous suppliers. As this excerpt from the interview with Andy shows:

“There is a lack of confidence in the R&D capability of indigenous suppliers. We are doing well in ABS and ESP because we have established our reputation. Our price is competitive and the quality is on par with the MNE suppliers. But it took a long time to build our company. It is very difficult to compete with MNE suppliers without support from Chinese automakers.”

The indigenous supplier 2 is specialised in ECU (electronic control unit). The ECU market is controlled by four MNE suppliers: Bosch, Delphi, Denso, and Continental. The cost of ECU high pressure common rail fuel injection system for the engine is around 30% of the cost of the engine

in China. If Chinese domestic automakers could work with indigenous suppliers to develop this technology, the component cost will reduce immediately. As this excerpt from the interview with Bob, the engineer manager of the company shows:

“The SOEs do not do co-research with us, they just don’t. They either do research internally or just buy the technologies from MNE suppliers. I think they don’t want to give resources to private companies. There are private automakers want to co-research with us but they worried about the risk.”

To verify my findings from indigenous suppliers and to find the potential explanations, I have conducted interviews with FAW engineers, managers and staff members. However, I have found some of my interviews with FAW interviewees more challenging compare to the interviews with joint venture engineers and staff members. The joint venture engineers and staff members I have interviewed are generally more direct and give clear answers. I have also found the content of my joint venture interviews are more consistent without any major contradictions. These experiences are different from the interviews with some FAW interviewees. Here is an example:

At the beginning of my interview with John, the deputy head of the FAW R&D department who oversees the safety features design for the new Hongqi model in 2012 told me:

“We have self-developed a very advanced driving assistant system. We have patented the system and will install the system to the new Hongqi models.”

As the interview went on, John has described the FAW ADAS system to me. From my industrial knowledge, I realised the combination he described of radars, cameras and ADCU (Assisted & Automated Driving Control Unit) was identical to the ADAS system developed by the MNE supplier B (supplier B is a code name so no sensitive business information is divulged here). Then I asked John to verify if supplier B was the source of the FAW technologies, he paused for a brief second and confirmed that FAW had collaborated with supplier B to develop FAW’s own system based on the ADAS system provided by B. He said he was impressed with the industrial knowledge I have about the technology and then said:

“Then you must know, Supplier B’s ADAS system is the most advanced in the world, we collaborate with them so our system is the best too.”

After my interview with John, I wondered about John’s motivation to misguide me into thinking FAW has self-developed the ADAS system and how natural he could change the statement to brag about how advanced the technologies from the MNE supplier are. Does he introduce the ADAS system as FAW self-developed system to everyone? Was it a test to my technological knowledge? I can imagine how the FAW management would present the ADAS system as a FAW indigenous technology development achievement to the central government officials. The government

officials would not have the technological knowledge to know the real source of the system, or perhaps they would not care. To them, the FAW R&D team has developed an advanced ADAS system by themselves. If they ever found out the FAW had bought the ADAS system from a MNE supplier, it was to guarantee the quality of the safety system. This shows a contradiction of FAW technology development, the political value of indigenously developed technologies. However, it also coexists with the distrust of indigenous suppliers and superstition in MNE products. This contradiction was partly the reason there was no support from SOE like FAW to private owned indigenous suppliers like Andy and Bob's companies. When I asked if FAW could have worked with indigenous suppliers to develop the system. John explained that FAW has its own research team on ADAS technologies. By working with MNE supplier, it accelerates the process of research and guarantee quality. As this excerpt from the interview with John shows:

“Car companies are eligible to call back its cars if there are any problems with the electric control system. Any call-backs cost large amount of money and cause damage to the brand name. We can take no chance with the L5 model. We have to work with the best ADAS supplier to develop our own system.”

It is recognised in the literature that building a long-term, semi-fixed supplier network would reduce negotiation cost and transfer more technology development cost to suppliers (Kumaraswamy et al., 2012). Indigenous suppliers also rely on car manufacturers to provide instructions and collaborations to develop new technologies (Khan, 2015). However, FAW is not building the indigenous suppliers network to support the company in the long term. Although I can understand the logic from the FAW perspective. The ideal scenario was that FAW R&D department could develop the ADAS system within two years. It is ready for installation in the L5 model with no potential risk. That was not possible, so to avoid potential hazard, they would prefer to pay the premium of buying the technology is from a leading MNE supplier. This is back to the sacred status of Hongqi. It has zero room for mistakes on safety issues. John's statement associate indigenous suppliers with call back was unfair. However, it is understandable that MNE supplier's product offers more assurance to FAW and its customers. If there are any potential problems with the system, it is easier to explain to superiors that it is problem with a leading MNE suppliers than some indigenous suppliers.

I have interviewed more engineers of FAW R&D centre to explorer the FAW patented ADAS system purchased from MNE supplier. It has revealed an important dimension of the FAW's goals of learning to me. As this excerpt from the interview with Liam shows:

“There are great pressure on us to transfer the R&D investment into results. Our job is to modify the technologies bought from MNE suppliers, turn it into our system and to get as many patents as possible.”

There are alterations made by the SOE engineers to the purchased ADAS system to fit the L5 model. The key design of L5 is surrounding the comfort of back passengers. The assumption is L5 buyers will always be chauffeured, usually on closed streets. Therefore, the ADAS system on L5 model is to make passengers to feel extra safe. The FAW engineers have adjusted the system to suit the need of the L5 model. To reduce potential malfunction that might be noticed by the passenger. All the beeping warning sounds were replaced by gentle steering wheel vibrations so the passenger would not be disturbed by the system. All sensors were tuned to be less sensitive. The automatic braking feature were made less intuitive so the backseat passenger won't feel it. These changes to the purchased ADAS system was patented under the new practical patents category. There are three types of patents that are related to automotive production and product in China. Standard innovation patents, new practical patents and exterior design patents. Standard innovation patent means a new innovative technological solution for a product, production or method. This kind of patent is valid for 20 years. New practical patent means a new practical solution that are innovative based on altering the shape, form, structure, application or combination of existing technologies. The exterior design patent means a new shape, form, colour, meaning or combination of exterior design. New practical patents and exterior design patents are valid for ten years.

A FAW engineer has provided me with a detailed internal document of the patent management structure and patent application procedure of FAW. FAW priorities patent application and management. The FAW CEO directly oversee the FAW patent management office, which directly oversee the FAW R&D centre. The top FAW R&D performance measurement is concentrated in application of production and product related patents. There is a financial reward system for FAW patent applications, 1000 RMB reward for all patent applications, after the patent is granted 1000 RMB reward for exterior design patent, 2000 RMB for new practical patent and 5000 to 20000 RMB for innovative patent. There are also clear requirements for every division to apply certain amount of patents every year.

The data challenges some key assumptions of the existing literature of organisational learning. Previous studies assumed that knowledge could be measured and quantified. The measurements of knowledge and knowledge transfer used in mainstream quantitative studies are R&D/training spending intensity, numbers of patents and survey results. Measuring knowledge transfer is challenging, especially when measuring the tacit knowledge flow, thus researchers can only quantify the explicit knowledge represented by patents (Teece, 1977, Mowery, Oxley & Silverman, 1996, Patel and Pavitt, 1994, Inkpen and Pien, 2006). However, in this case, the patent driven R&D have some negative effects on the actual technology development. These patents that represent achievement the R&D does not represent actual knowledge gained.

The FAW's "patent driven R&D" is very different from the FAW-VW's "cost reduction driven R&D" as analysed in chapter 5. I have asked FAW engineers about their perceptions of FAW-VW as a knowledge source. What could FAW learn from the market successful FAW-VW.

FAW engineers acknowledge that the FAW-VW joint venture has achieved strong market performance. The joint venture engineers have accumulated knowledge of localise MNE models and domestically produce MNE components. However, the FAW engineers argued that the knowledge accumulated by FAW-VW engineers were based on MNE's support to manufacture MNE models only. Thus not useful to indigenous model development. They argue that key knowledge of the automotive industry is embedded in the development process. The knowledge is accumulated from experiences of research, measuring and testing through sufficient time and financial support. It is common in the automotive industry to take 10 years to develop a technology from ideas to production. Knowledge accumulation requires long-term consistent and independent R&D. From FAW engineers' perception, FAW-VW engineers do not have the opportunity to independently develop indigenous models from ground up. Therefore, they do not possess the most valuable knowledge to FAW engineers. Compare to chapter 5, FAW-VW engineers demonstrated the boundary of their tribe. FAW engineers have also demonstrated the boundary of the FAW tribe too. The joint venture is a distanced external tribe, there is no connection between these two human groups.

Through the interviews, I have found no consistency of the FAW R&D projects. In the patent driven R&D system, the FAW R&D projects are approved by three criteria: 1. patents potential, 2. model development requirement, and 3. manager preference. Unlike the cost reduction driven R&D activities in the FAW-VW. The different criteria have made FAW R&D activities widely spread with no focus. Many technology development projects started simultaneously with industry competitors but are dropped for various reasons. In the case of ADAS technologies, SOE management needed the technology instantly. Unlike in the FAW-VW where the head of R&D makes technology development proposal to the board that is consistent with joint venture long term strategic plan. The FAW R&D department has limited independence of technology development strategies. As discussed in previous sections, managerial changes in FAW bring immediate and immense strategic changes to the direction of indigenous model development. It is impossible to make reliable long term R&D plans.

Through the interviews, every FAW engineer interviewees have experiences of working on project that was subsequently abandoned, here are some examples. FAW have started research in electric cars from 2001 to 2005. The research project was on mixed carbon materials of battery frames in electric cars, it reduced the weight of the frame from 109 kg to 19.5 kg. The FAW management decided against launch electric car model to the market. R&D department has to stop the research project. Nissan has started the research project on similar materials and is now using this material on its models. FAW has resumed the research for electric cars in 2009.

In 2005, FAW R&D centre has developed a V12 engine. The project was started by the FAW CEO because no Chinese indigenous automaker had developed V12 engine in the past. The team also developed V8 and V6 engines, but there was no FAW model to put those engines in. In 2010, the

R&D centre resumed the research on V12 engines. As a result of the 5-year gap, there is no consistent improvements on the technology. FAW engineers have to make changes to the blueprint while manufacturing the engine.

In addition, I found the FAW research projects often do not get sufficient time. This is partly because projects are not seen as the projects of the FAW, but projects of a specific manager who started it. It could be seen as the CEO's project or the manager of R&D department's project. There are two problems with this phenomenon. One is that this manager who started the project would want to get the result as his/her performance achievement before his term finishes. The other problem is, if the manager leaves the post during the research project, these projects often get cut so engineers can start new projects of the new managers. As this excerpt from the interview with Emily shows:

“The maximum time of a project can get is two to three years. The project must bring results within three years.”

Three years are too short for technology development in the automotive industry, especially with limited previous knowledge accumulations. Therefore, the quick and safe solution for FAW manager is to purchase technologies from MNE suppliers and demand engineers to modify the technologies to get patents. The MNE suppliers are actively involved in the process because it can charge high technology transfer fee, service fee for collaboration research and be the exclusive supplier of the technologies to each model unit.

However, relying on MNE suppliers for technologies is problematic. As discussed, the nature of technology development knowledge is accumulative. An automaker must accumulate the knowledge of technology development and model design to be competitive in the market. A luxury model is on the top of the knowledge pyramid of the auto company. Mercedes S-class is developed based on the knowledge of developing C-class, E-class and past S-class models. Audi A8 is developed based on knowledge of developing A4, A6 and past A8 models. The Hongqi L5 is built on pictures of Chairman Mao shaking hand with past FAW managers and ludicrous contracts for technologies from MNE suppliers. The demand for instant success could cost more than money.

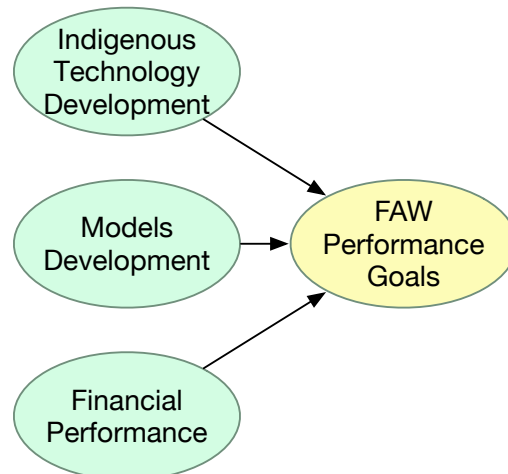
This section has explored some driven factors of the FAW patent orientated R&D system. Factors such as the lack of confidence in indigenous suppliers. The demand of instant result from SOE managers. The lack of tolerant for failure. The lack of knowledge accumulation. These factors make buying technologies from MNE suppliers the safest and fastest solution to FAW managers. FAW could get new application patents from these technologies to show for its R&D effort. However, by skipping the knowledge accumulation process of developing these technologies. FAW would never have the true ownership of these technologies. This strategy has also affected the FAW financial performance.

FAW cannot control the cost of its components without building a sustainable domestic supplier system with indigenous suppliers. The cost of procurements is higher than 85% of the production cost of average FAW indigenous models. Automakers like FAW-VW are producing much higher volume of cars, so it can reduce the cost of its components. As a result of the market failure of the Hongqi models, the production cost is high without even considering the R&D spending. The cost of purchasing expensive technologies from MNE suppliers and the lack of consistency in R&D projects made up a ludicrous bill of the R&D spending of Hongqi models. I was told by Sophia, an accountant of the FAW finance department, the total R&D spending on Hongqi model from 2008 to 2012 was around 22.34 billion RMB. FAW plans to invest 10.5 billion RMB to the Hongqi model R&D project from 2012 to 2017. That is a 32.84 billion RMB (3.28 billion GBP) R&D budget for just two models (FAW website), which were sold for less than 9,000 units from 2012 to 2016. It only cost Geely 14 billion RMB to acquire Volvo from Ford. FAW group could afford the ludicrous bill because of its highly profitable joint ventures. FAW-VW, FAW-Toyota and FAW-Mazda are the most profitable businesses of the Group. The total annual profit of FAW in 2012 was 40.2 billion RMB (from a FAW interviewee).

The deep root of the problem can be chased back to the sacred and profane dichotomy and solidarity force of FAW. Since the economy reform, the Chinese government has strongly emphasised the importance of technological development. Number of patents is the measurement of such achievement of a SOE. The political pressure and reward of meeting and exceeding government patent goals are tremendous. The solidarity force of FAW-VW is profitability, efficiency and technological superiority. The solidarity force of FAW engineers is political status. Since the 1950s, the ultimate goal of FAW engineers was to directly serve the Party elites and the ultimate achievement is to become one.

6.4 Summary of FAW performance goals

Figure14 FAW performance goals



There are three performance goals of FAW emerged from the interviews with FAW interviewees. These are financial performance, indigenous technology development and indigenous model development (Hongqi model). Through my interviews and observations, I have found that compare to the FAW-VW which theoretically is a complex organisation due to the joint venture ownership, the FAW is lot more complicated. There are a lot of contradictions and ambiguities with my FAW interviews. The source of such contradictions and ambiguities came from the conflicting FAW goals. In the following sections, each FAW performance goal will be analysed.

Through the analysis, there are contradictions between the three FAW performance goals. In an ideal world, FAW should use its R&D spending to attract experienced engineers to develop technologies for models that would be popular in the market. All research projects would follow a pragmatic and consistent long term strategic plan. FAW would give adequate time and resources to support these technology development projects. These technologies would go through rigorous testing and be installed in models that are designed to be competitive in the target market segment. With resources and knowledge accumulation, FAW could offer competitive luxury models for the government car market as well as the luxury car market. The reality as shown in the section is the opposite from the ideal world. Hongqi model development is not market driven, the L5 model was designed for the national leaders only, the H7 model was designed for the government car market. The poor sale does not remotely justify the ludicrous production cost and R&D spending on these two models. The indigenous technology development of FAW is not market driven but patent driven. FAW does not collaborate with private suppliers to co-research and establish indigenous supplier system to control cost. FAW purchases advanced technologies from MNE suppliers at high premium to get instant access of the technologies and get new practical patents from the purchased technologies as proof of its R&D effort. The goals of Hongqi model development and technology development damages the FAW Group financial performance, even though profit from FAW joint ventures still make FAW a profitable SOE.

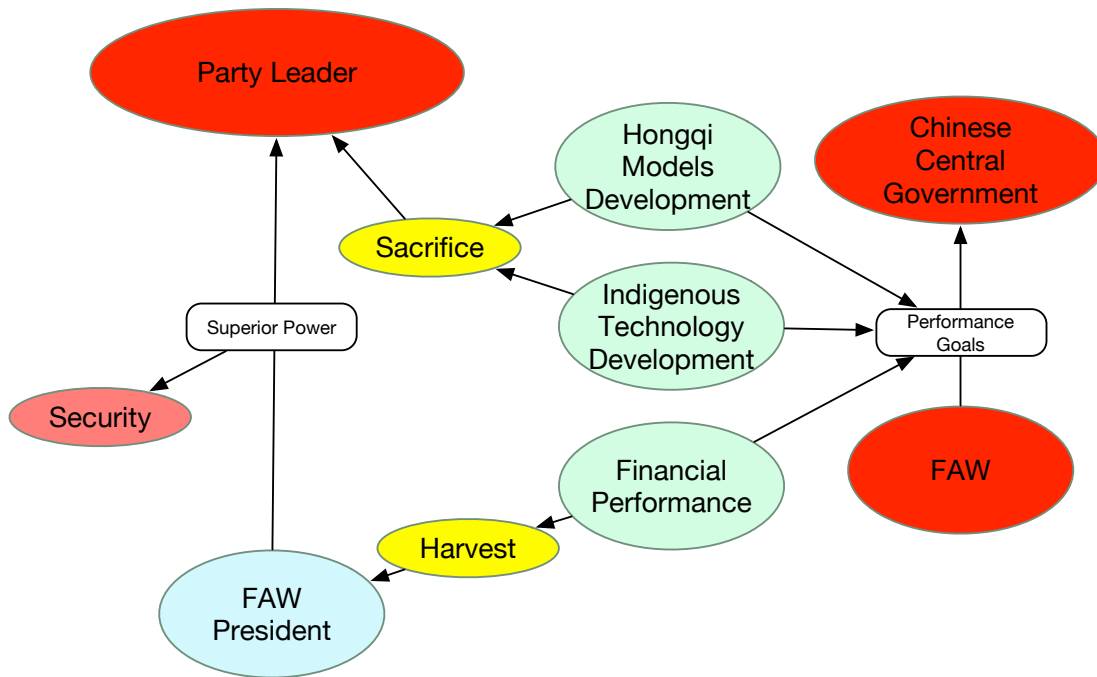
The questions are, how do the FAW managers and engineers make sense of these contradictions? How do we make sense of these contradictions?

The Chinese society is a collectivist society. “Collectivist” societies described from Hofstede’s ideas and metrics, are societies made up of a myriad of collectives of many possible sizes, all of which define their own membership and greater good as against all the others. A ‘collectivist’ society is not one in which everybody is unselfish. It is one where every ‘collective’ is supremely selfish in its relation to every other. That is why “collectivist” societies are, in Fukuyama’s terms, also “low trust” (Fukuyama, 1996). There are two concepts of “collectivism”, which are in conflict in the Communist China. Collectivism “集体主义” is often glossed as willingness to sacrifice oneself for the greater good. There are, however, two dramatically different conceptions of ‘the greater good’ here, which are in conflict. In one, ‘the greater good’ means the greater good of the collective to which one belongs - a collective almost always defined, in traditional Chinese societies, by kinship relationships. In the other, ‘the greater good’ means (or aspires to mean) the

good of society as a whole (where ‘society’ is interpreted to mean the entire nation, or the Communist Party). The communist conception of collectivism and the traditional kinship often collides just like one famous slogan of the time, “we are close to our parents, but we are closer to Chairman Mao”.

In the context of FAW, from the structural social anthropological perspective, the determinants of these FAW performance goals are relations between the FAW and the Chinese central government, the FAW leadership and the Party leadership. As analysed in chapter 4, the sacred and profane dichotomy is the dominant structure of Hongqi that generates strong solidarity force to unify FAW managers and engineers from 1958 to 1979. The relationship between FAW managers and engineers to Chairman Mao was a mixture of ‘monarch-subject’ relationship and ‘idol-worshiper’ relationship. It is the greatest individual and tribal honour to serve the Chairman. The Hongqi was sacred and the production cost and R&D cost are profane. The more effort putting into the production and higher cost are only fitting to the sacred status of Hongqi. Serving such sacred cause could bring personal advancement as well as personal tragedy.

Figure 15: FAW and FAW president’s relationships with the government and Party leader



The sacred and profane dichotomy changed after the economic reform in the 1980s. The effort to modernise SOEs like FAW was to weaken the past sacred and profane dichotomy of Hongqi. The official goals of the Chinese central government for FAW are strong financial performance, technology and model development. These official goals are achieved by FAW through managing profitable joint ventures, high number of patents and extravagant development of Hongqi L5 and L7.

However, these goals contradict each other, unlimited R&D and production budget to produce an ultra-luxury model won't have strong market performance. FAW engineers would not have given time to do long-term R&D. FAW must buy expensive technologies directly from MNE suppliers to boost the patents number. These behaviours damages the financial performance goal. So why does FAW do it?

As reviewed in chapter 2, there are two important forms of sacred–profane dichotomy in human society, one is sacrifice and offering (Eliade, 1976) and the other is ancestor worshipping (Ahern,1973). It was commonly believed that there is the God figure with superior power that controls the humanly uncontrollable factors (Evans, 2008). In the case of a non-market environment, the ecological system of a company is built on the foundation of independence and relatively isolated internal power structure. External forces could crash the self-sustained ecological system (McLean and Elkind, 2004). In the next section, we can finally construct the whole ecological system of FAW.

6.5 The ecological system of FAW: tribal corruptions and sacrifice

As reviewed in chapter 2, tribe as a form of human social organisation has clear functions of protection, hunting and gathering (Bloch and Parry, 1982). These tasks require division of labour of a wide arrange of skills (Barfield, 1997). One important rule of the tribe is to distribute the harvest (Testart, 1988). Researchers had found that progressive increases in food supply are the preconditions for the appearance of levels of increasing social complexity (Oberg, 1955). A social class system will be required to manage and distribute the food (Carneiro, 1981). Traditional tribes try to survive in the modern world using the most advanced tools to maintain the traditional tribal power structure and identity (Breslow, 2014). Just like a tribal chief, the two main tasks of the president of FAW are 1. protect the tribe, and 2. Distribute the harvest.

During my interview period, it was impossible for me to gain access to the top FAW managers. However, the anti-corruption campaign in China since 2012 had surprisingly slice opened the curtain on FAW top management. What was hidden is now unveiled. From news reports and detailed court documents open to the public, I had the chance to analyse the hidden part of FAW and FAW-VW which everyone knew were there but can never put finger to it.

As introduced in chapter 4, as the tribal chief of the FAW, Xu Jianyi is a typical “second generation FAW”. His father Xu Zuoren, was a founding member of FAW in the 1950s as the deputy director of FAW. Xu Jianyi was born in 1953, the same year when FAW was founded. His father named him Jian (build) Yi (first) after the First Automotive Works, meaning he wishes him to contribute to building the First Automotive Works. Xu Jianyi has grown up in the FAW. After graduated from the Jilin University automotive school, he had joined the FAW chassis research department

in 1975, he was promoted to the deputy director of FAW chassis research center in 1990, the deputy head of light vehicle research department in 1992, the deputy manager of FAW chassis factory in 1994, the deputy manager of FAW-VW in 1995, the chief officer of scheduling in FAW in 1996, the deputy CEO of FAW Group in 1996, the president of FAW-AYAU in 2000 and the vice president of FAW in 2003. In 2003, he had left FAW to join the Jilin Provincial government. From 2004 to 2007, he was the mayor and party secretary of Jilin City. In 2007, he was appointed the CEO and deputy party secretary of FAW. From 2010 to 2015, he was the president and party secretary of the FAW Group. Since he started working in FAW in 1975, except 4 years working in the regional government, Xu Jianyi have spent 36 years working in FAW and was in charge of this SOE for 7 years. Xu was truly a FAW man, FAW was his home turf and he had great firsthand knowledge of the FAW history. He was also well connected within the FAW Group. As discussed in previous sections, Xu was ambitious when he came back to FAW. His upbringing as the firsthand witness of the “glory days” of FAW in the 1960s and 1970s brought by the political achievements of Hongqi, must have played a vital role in his determination to revive the Hongqi model as an ultra-luxury and ultra-political car for the Party leader at all cost.

However, before he could start his ambitious plan, he must deal with an investigation of FAW started by a troubled audit of 2011. There were unconfirmed rumors that he went to Beijing in 2011 to use FAW’s political connections to overcome the problems with the support from the “old leader” (Economic Observer, 2015). The ‘old leader’ who had once worked in the FAW in the early stage of his career and achieved powerful status later on in life. Who even after retirement remained politically influential and was seen as a guardian to FAW (traditional concept of collectivism here). In 2011, perhaps because of the need to show strong and secure leadership, the very low-key president has asked FAW-Audi to be the sponsor of the CCTV (China Central TV Station) China Economic Figure of the Year Award in 2011. The Chinese state TV annual economic award gala was one of the most reported economic events in China. It was the most valuable award to a business manager in China until 2014 (the director of CCTV Economic Channel, Guo Zhenxi and the Annual Award producer Tian Liwu were later convicted of corruption). With little surprise, Xu Jianyi had won the 2011 CCTV China Economic Figure of the Year Award sponsored by FAW-Audi sale company. The organizer had invited the former German Chancellor Gerhard Schroder to hand him the award. He won the award for his ‘extraordinary contribution to indigenous brand development’.

Ironically, the FAW indigenous sales declined sharply under his leadership. Although, Xu had invented the slogan “develop the indigenous brands regardless of costs”. In 2014, other FAW models such as the Benteng B90 only sold 3,951 units, a 47.15% decrease from 2013. The brand new Oley model which FAW spent one billion RMB to develop only sold 6,933 units. The development focus was on Hongqi models only. However, with the new leadership in 2012, the government vehicle purchase rules was strictly reformed, the H7 model can only be purchased for officials above the vice-ministerial level. That has led to very limited government order for H7.

These sale declines would not bother Xu. The FAW president was hoping that once President Xi Jinping greeted his troops in a Hongqi, that is the confirmation of achievement of Xu's work.

In 3rd September 2015, President Xi Jinping did appear in a shiny Hongqi special made L5 parade car (L9) crossing the Changan street in front of the Tiananmen Square. Unfortunately, Xu Jianyi is irrelevant anymore. In 15th March, 2015. The Central Commission for Discipline Inspection Department announced that the President and Party Secretary of FAW, Xu Jianyi is under the Party investigation for serious violation of Party discipline. As a member of the national congress, Xu was taken from the hotel where the Jilin delegation stayed during the National People's Congress meeting in Beijing. In August 2015, two weeks before the V-day parade, the Central Commission for Discipline Inspection Department announced, Xu has been expelled from the Party. Here is the translation of the official statement:

“After thorough investigation, Xu Jianyi did not conscientiously fulfill the responsibility as a party leader of the SOE. He did not execute the Party's decisions. He was seeking benefits to assist his son's promotion. He had seriously violated of the party disciplines by accepting gifts and embezzle state interests in the purchase of housing. He had received unlawful bonuses and took advantage of his position to seek personal interests and accepting bribes in selecting and appointing cadres, and business partners. In addition, Xu has attempted to disturb and obstruct party's investigation.

Xu Jianyi, as a senior party cadre, should had bear in mind the purpose of the party, and strictly observe Party disciplines, to keep his honesty and integrity. But he had seriously violated the Party's political discipline, political and organizational disciplines and rules. After the party's 18th National Congress in 2012, he still does not converge and stop his corruption act. The consequence of his actions was serious with bad influence to the Party's work. In accordance with the relevant provisions of the “Chinese Communist Party Disciplinary Regulations” and after considered the inspection report, the CPC Central Committee and the Central Commission for Discipline Inspection approved the decision to expel Xu Jianyi from the Party. After the approval of the Ministry of Supervision of the State Council, Xu Jianyi is administratively dismissed from his posts. The criminal evidences and clues are transferred to legal enforcement departments to be prosecuted and Xu's illegal properties are seized according to law.”

In February 2017, two years after he was arrested, he was sentenced to eleven years and six months' imprisonment for corruption charges. He has taken bribe of 12 million RMB. In September 2017, the Chinese state media CCTV had lunched a four episodes TV series “The Sword of Inspection Tours” to present the achievements of the anti-corruption campaign. In the fourth episode, the former FAW president, Xu Jianyi, appeared to make his public confession. This episode has unveiled some of the reasons that had led to his downfall.

At the beginning of the episode, Xu confirmed his disloyalty to the Party: “As a leader of a leading SOE, the Party pay us well enough. I say this from the bottom of my heart. I know why people give me money, they give me money for my power.”

The main source of Xu’s bribery came from his brother-in-law, whose company took over the logistics and transport business of the FAW group. Xu receives a house and money from his brother-in-law. The inspection group received report on this and held three meetings with Xu about this. Xu lied to the inspection group about asking his brother’s company to withdraw from the FAW businesses. He had only asked his in-law to change the name of the company and found someone else to be the CEO.

The Party questioned his loyalty on three incidents.

The first incident was that under Xu’s permission, FAW had built a luxury villa community with big private gardens for each villa, only sold to top and key mid-level FAW managers at a much lower than market price. These managers already have FAW assigned houses in the city. The FAW employees call this villa community the ‘managers’ villa’. Xu acknowledge the anger of the FAW employees because many of these employees cannot afford adequate housing. In the first meeting, the inspection team told Xu that he must reduce the living area of his house by demolish the walls around his private garden because his housing area exceed the standard for minister level cadre. Xu had responded by grew a tree wall inside his private garden and kept the previous garden wall. Xu confessed that “Some managers came to me and said ‘you are the boss, if you demolish your garden wall we have to demolish ours too’. I felt I didn’t want to demolish the wall so my fellow managers would be disappointed in me.”

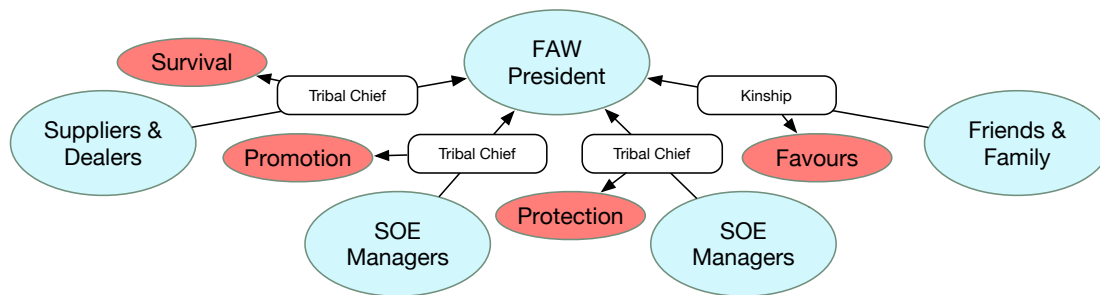
The second incident was that to encourage FAW Group’s strong performance, the regional government had paid 50 million RMB as part of FAW’s tax return to the FAW as encouragement bonus to the company. Xu decided to split the bonus between FAW managers as individual performance bonuses. Xu had received 4.3 million RMB bonus. This problem was also reported to the inspection group. After a meeting with the inspection group, Xu had asked each level of managers to return 10% to 20% of the bonus as the rectification to the inspection concerns.

The third incident was that Xu had publicly said in a managerial meeting that he thought Party leadership and supervision do not bring economic benefits to FAW. He had assigned FAW managers that he thought were old and less capable to the posts of Party secretary of subsidiaries. Xu even assigned a midlevel manager who had made mistakes to the post of Party secretary of a subsidiary as a form of punishment.

Xu has only realised that the inspection may affect him after the second meeting with the inspection group. He put his luxury watches and gold bars in a few tea tin and dig a hole in the private garden of his FAW villa to hide it. After the third meeting with the inspection team, he realised that he

might not be able to keep the villa. So he digs the tea tins up and transferred these valuables to a relative's house. When the prosecutors confiscate the valuables as evidence, there was still mud on the tins. It shows Xu was confident that he did not make any serious mistakes that may led to criminal investigation. His expel statement has listed items such as assist his son's promotion, benefit from company housing and receive extra bonuses which were unusually trivial. Even the 12 million worth of bribery from his in-law seems rather trivial for a cadre of his rank and power. To many Chinese, and perhaps to Xu Jianyi, these benefits were norms, within the tolerance of the past institution of SOE. The villas, the private gardens, the bonuses and demote tainted managers to be party secretary are all methods Xu adapted to show him as a fair and understandable manager, a protector of his fellow managers. A goof tribal chief. It was widely reported in 2013, Xu Jianyi had slapped a joint venture CEO (it was believed to be the former CEO of FAW-VW) during a board meeting (Economic Observer, 2013). It was also reported that he had slapped another CEO of a FAW supplier in 2011 because that person was late to a group dinner (Economic Observer, 2015).

Figure 16 Tribal relations in FAW



The three incidents that had led to Xu's downfall were evidence of the tribal relations within the FAW. As shown in figure 16, Xu is the tribal chief, he is the protector and ruler of the FAW tribe. He offers promotion, protection and favours to his fellow tribe members. The Party is the external force that governs Xu's FAW tribe. He had to do his best to please the head of the Party, so the FAW tribe is protected from external crashing.

The Party does not care about the potential loss of state owned assets. If that was the case, then the 32.84 billion R&D budget (FAW website) on two market suicidal models are much serious problems. Fundamentally, Xu Jianyi's disloyalty to the Party is based on his devotion to the FAW tribe. The tribe of FAW is more important to Xu Jianyi than the Party.

Xu had confessed on TV that his biggest mistake was to have broken the institution of Party leadership in FAW. Everyone stopped taking the Party leadership seriously. It is true that under his leadership, he had turned a blind eye to corruptions which was long existed before his leadership. As the tribal chief, his role was to distribute the harvest to his fellow managers. As researchers suggested that progressive increases in food supply are the preconditions for the

appearance of levels of increasing social complexity (Oberg, 1955). A social class system will be required to manage and distribute the food (Carneiro, 1981). This is proven true in the case FAW. In the past, before the joint venture era, there was no profit to be distributed. The solidarity of the FAW tribe was political status. Under Xu's rule, he had to let his fellow managers get some benefits from the ludicrous profits from the joint venture businesses. In 2013, the total advertising spending of FAW-VW was 4.6 billion RMB. The following corruption cases show the tribal structure of FAW that had created an ecological system that would run wild when cash pours in.

From 2002 to 2013, almost all top FAW assigned managers of FAW-VW sales department were involved in some form of corruption. In September 2014, the former CEO of FAW-VW sales and the deputy chief engineer of FAW Group, Zhou Jiangyong was sentenced to 15 year's imprisonment on corruption charges. Li Wu, former Deputy CEO of FAW-VW and CEO of FAW-VW Sales. From 2002 to 2011, he used his position to illegally assist others to open new Audi dealerships and take advertising contracts. He had received bribes from 13 companies. Zhou Chun, former deputy CEO of FAW-VW Sales. From 2009 to 2013, he used his position to illegally assist others to pass Audi dealership exam to gain approval. He had received large amount of bribes from 49 companies. Xiao Min, former deputy CEO of FAW-VW Audi Sales. From 2006 to 2013, he used his position to illegally assist others to get advertising and exhibitions contracts. He had received large amount of bribes from 13 companies. Zhang Xiaojun, CEO of FAW passenger car sales company. He has received large amount of bribes while working as the deputy CEO of FAW-VW Audi Sales Company from 2006 to 2012 to illegally assist companies to open new dealerships. FAW-VW Sales dealership and advertising contracts.

As discussed in Chapter 4, there are two kinds of managers in FAW, one is the sons, daughters and in-laws of the first generation FAW managers. One is managers that came from ordinary backgrounds and got promoted to the managerial position for their abilities. As the following examples shows, there was no obvious difference between these two kinds of managers in terms of loyalty to FAW and pursuing of illegal personal gains.

Lu Minjie was the head of PR of the FAW-VW Audi sales department since 2006. She was a well-known figure of FAW in the media. She was the responsible of getting the CCTV award for Xu. Under her leadership, the Audi public relations department was regarded as the best PR team in the Chinese automotive industry. Lu Minjie also came from a FAW family and she became the daughter in law of Geng Shaojie, the former president of FAW from 1985 to 1999. Lu Minjie joined FAW in 1993 after college graduation. She had joined FAW-VW in 1999, and was promoted to lead the FAW-Audi sales PR department in 2006. The FAW-Audi PR team has successfully changed the image of Audi in the Chinese market from a government car to a youth and sporty image. She was promoted to lead the FAW-VW client relation management department in 2014 before she was taken away for investigation.

Lu's parents are FAW engineers. She said in an interview, *"I grew up in FAW, I love every grass and tree in FAW. If I plan my career in different stages, there will just be one stage, FAW. I would never want to work anywhere else or for any other companies. The proudest moment of career is when I know I have not disappointed our parents"* (Lu, 2013). The "second generation" FAW managers, sons, daughters and in-laws of the first generation FAW managers feel more entitlement through their interviews, this is our turf, we love FAW more than others, we care about FAW more than others. On the same day when the news of her arrests broke out, FAW had announced the suspension of the supplier status of 19 advertising and PR companies.

Shi Tao had joined FAW-VW in 1992. In 2006, he was appointed as the executive vice president of the FAW-VW Sales Company. Shi was a founding member of the joint venture sales company. He was in charge of establishing the Audi brand sales channels in China. Since 2006, he was in charge of strategic planning, VW brand marketing and strategy, sales networks and training and aftersales service. In 2011 the National Audit Bureau started to audit FAW-VW and its affiliates. Shi Tao had just received 500,000 RMB bribe from Beijing O&R Communications company. He had returned the RMB 500,000 to O&R with five thousand interests and later took it back in cash. In 2011, he required O&R to transfer 999,999 to his cousin's account. In December 2012, when FAW-VW was under auditing again, he returned 1,061,499 RMB to the agency and asked his sister to take it back in cash. In October 2013, Shi Tao was under criminal investigation. Shi Tao's corruption activities were based on his position of power to give contracts of FAW-Volkswagen Sales Company on advertising and FAW-VW dealerships. Shi Tao's family property was valued as more than 78.23 million RMB (7.823 million GBP), including 14 real estate properties in Changchun, Beijing and other cities, in one of his properties in Changchun, the investigators found 20 million RMB in cash. In April 2015, Shi Tao was sentenced to life imprisonment.

In 2007, the manager of Jieyatai Auto Trading company found Shi Tao stopped supply the popular Golf models to its dealerships. Jieyatai asked Jin to help and Jing Guosong gave Shi Tao 185,000 RMB out of the bribe Jieyatai paid him, because "Shi Tao hinted at me that he likes a watch, which cost around 185,000 RMB." Shi Tao was in charge of model distribution, so he can distribute popular and special models to different dealers. In 2008, Shi Tao distributed some "Olympic models" to Dalian Jieshida Auto Sales. These so-called "Olympic models" are models which FAW-VW made for transporting Olympic torches around the country, these cars can be sold to the dealers at a much discounted price. In return, Jieshida paid Shi Tao 500,000 RMB.

In December 2013, the former deputy CEO of FAW-VW Sales, Jing Guosong was convicted of corruption charges. There were 67 confirmed bribes. The total value of the bribes he received was 90 million RMB. He was sentenced to death with two years' suspension, deprivation of political rights for life and confiscation of all his personal property. Like Xu Jianyi, Jing Guosong is also one of the 'second generation FAW', his parents both worked in FAW. Born in 1971, he had joined the FAW-VW after graduation like the most of 'second generation FAW'. He was a salesman in FAW-VW in 1997, after just four years, he was promoted to the regional sales manager, in 2007

he was appointed the deputy CEO of FAW-VW Sales, in charge of sale channel development. Under his rule from 2007 to 2012, to open a new VW Audi dealership, companies must pay at least 15 million in bribes to the sales company managers. To get priorities distribution of popular models like VW Golf and Audi Q5, extra bribes need to be paid to the management of sales.

Interestingly, in the case of FAW-VW sales company, not only all top managers knew each other is taking bribes, one deputy CEO had to bribe another deputy CEO on behalf of a dealership to get popular model supplies. It shows the extend that corruption is normalised in the FAW-VW sale department.

In 2015, an internal report was published in FAW that exposed more major corruption cases from 2013 to 2015. An Dewu, former deputy CEO of FAW. From 1999 to 2007, he used his position to illegally assist others to get auto show, PR, dealership contracts. He had received bribes from seven companies. He had also embezzled state properties through fake invoice and through FAW Suzhou service trading company. Wang Qingbai, former administrative officer of FAW marketing administrative department. From 2005 to 2009, he used his position of power to illegally assist companies to gain service contract. He had received large amount of bribes from an exhibition service company. Cui Jian, former head and party secretary of the financial management department of FAW Jiefang Truck. From 2012 to 2015, he used his position of power to borrow 15 loans from 5 suppliers and 1 dealer in total of 20.75 million RMB to use as personal investment in the stock exchange market. Song Jing, former accountant of the financial management department in FAW Passenger Car Company. From 2008 to 2012, she used her position to add invoice and fake signatures of sales personals to embezzled state properties of 1.39 million RMB. Liang Xiaomei, former party secretary, disciplinary secretary and chairman of the work union of FAW-GM light commercial automotive company. From 2003 to 2013, Liang was the head of FAW marketing administrative department. She used her position to illegally assist others to gain advertising and show floor construction contracts. She had received large amount of bribes from advertising companies. In 2006, she ordered staff Cui in marketing administrative department to withdrawn client subsidies and put the fund in her private account. Liu Yong, former head of electrical equipment procurement department of FAW-VW. He used his position to illegally assist an automotive wire supplier to get contracts. He had received the down payment for his villa from that supplier. He had manipulated the bidding process of Audi A6L whole car wiring project, to help electric assemble supplier to win the bid. Xie Changgui, former head of production technology department in FAW Tianjing Xiali. From 2010 to 2014, as the deputy head of manufacturing department of FAW-Toyota SFTM, his wife Yu Xi has registered a company that received 5.28 million RMB business revenues from SFTM.

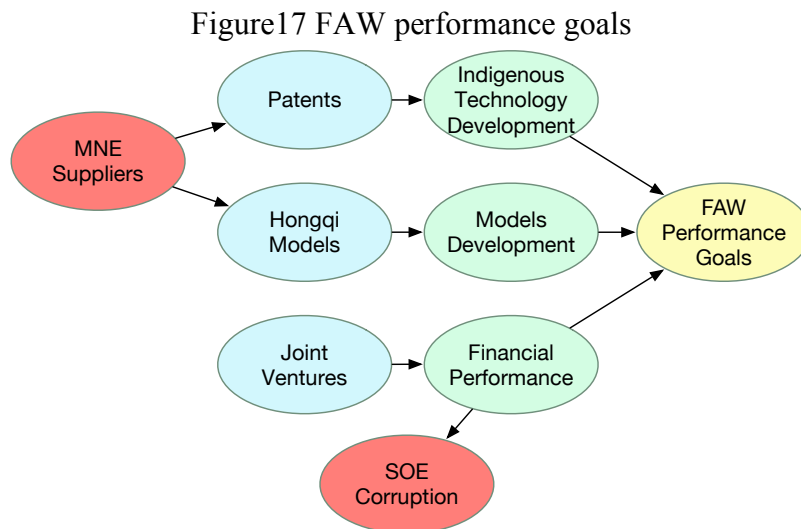
Of course there are alternative explanations of why Xu and FAW managers were targeted. The ultimate political power of the FAW tribe come from the highest ranking official who express himself as a FAW man. This thesis is not trying to defend any corrupted managers or the ecological system that normalise corruption. Corruption became a norm of the FAW before and under Xu

Jianyi's leadership. It is a fact that a total of 80 top and mid-level FAW managers were convicted of corruption.

For that, Xu Jianyi was not good a tribal chief. Instead of distribute the harvest in an orderly manner, he failed to establish an order in FAW. The village picnic was turned into an eat all you can riot. Under his rule and long before his rule, the solidarity force of political status was weakened in FAW. Tribe members do not have a solidarity force that gave them a strong sense of unity and identity. The only thing left that can use tribal members are money.

6.6 Chapter Summary

There are three key performance goals of FAW, the indigenous technology development, indigenous models development and Group financial performance. As shown in the figure 17, indigenous technology development was conducted through the expensive patent driven R&D. Indigenous models development is achieved by ludicrous R&D spending on Hongqi models. Both goals were achieved in the short term by purchasing technologies from MNE suppliers. FAW Group financial performance is achieved by its profitable joint ventures.



According to the literature, learning through joint venture is the process of absorbing tacit knowledge and explicit technology transfer within the network between MNEs, IJVs, MNE/JV/Indigenous suppliers and Chinese SOEs. Through the joint ventures, indigenous brands are getting into the global technology supply network. However, most Chinese suppliers are still excluded from it. The most important knowledge Chinese state owned manufacture need is to build a low cost and high quality supplier system. Explicit knowledge such as technology can be bought, but it is not as valuable without the accumulative knowledge of how the technology was innovated and tested, which cannot be transferred.

Profitable joint ventures are the key to the current ecological system of FAW. The profitable joint ventures like FAW-VW provided the financial resources FAW needs to satisfy its financial performance goals. The joint venture's profit pays for the ludicrous R&D budget of Hongqi models. The popularity of joint venture produced models makes the power of SOE assigned managers in charge of its model sales and distributions irresistibly lucrative.

Figure 18 the ecological system of FAW

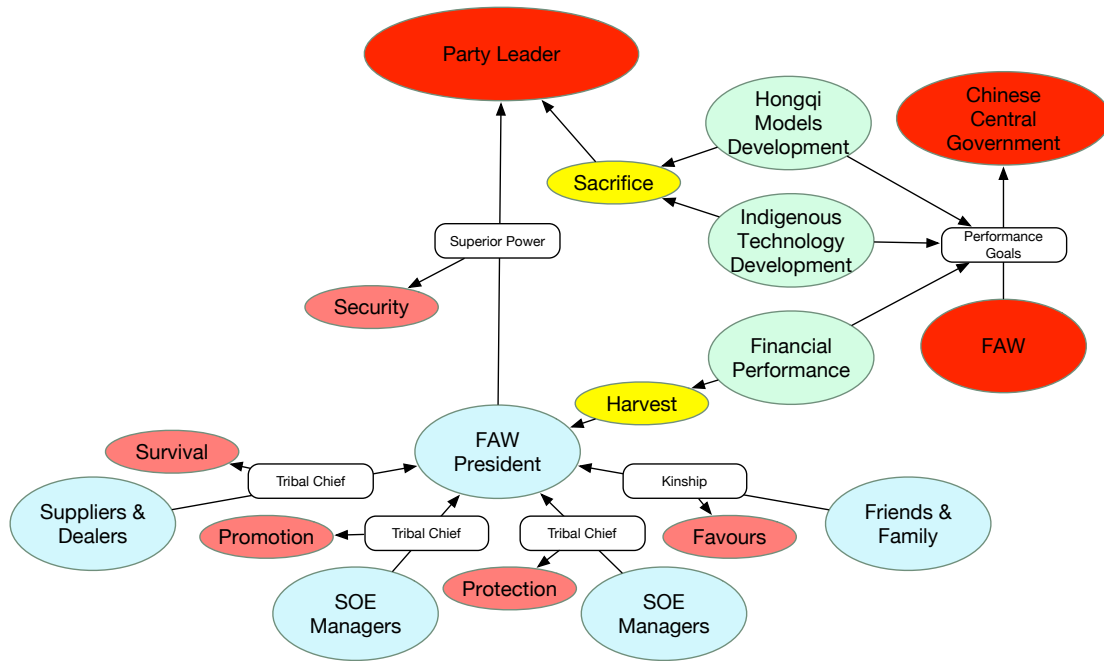


Figure 18 presents the complete ecological system of FAW. If it wasn't for the anticorruption campaign, this seems like a sustainable ecological system. FAW would satisfy the central government by achieving financial performance goals through managing profitable joint ventures. FAW would reinvest the profit from joint ventures to develop its technologies and its indigenous models. FAW would have patents and self-developed luxury models with cutting edge technology features to show for it. These efforts were used to be enough to exchange for the protection of FAW tribe. The central government do not interfere with FAW daily operation. Some behaviours were tolerated, understood and ignored.

This is no longer the case, as Xu confessed to the camera that his biggest mistake was to have broken the institution of Party leadership in FAW. From our analysis, his biggest mistake was the failure to establish a new set of solidarity force that unify, and govern the FAW tribe.

In the literature review chapter, I have critically reviewed the Liang and colleagues 2015 study on state control in the Chinese state-owned enterprises. Liang and colleagues claimed there are two types of state control mechanisms that influence SOEs strategic decision-making: executives' political connections and state ownership control. These two mechanisms represented the evolving

relationship between state and SOE managers that can be explained through the integrated agency theory with institutional analysis. This thesis argued that the state control mechanisms of SOEs are dynamic and case specific. The relationship between a SOE president and the government could also be the relationship between a tribal chief and the superior power.

One important form of sacred–profane dichotomy is sacrifice offering (Eliade, 1976). It was commonly believed that there is the Godly figure with superior power that can control the humanly uncontrollable factors (Evans, 2008). In the case of farming tribe, the amount of rain, in the case of hunting tribe, the risks of being harmed from wild animals, in the case of fishing tribes, the weather and the location of fish (Shipton, 2014). In the case of a non-market environment, the ecological system of a company is built on the foundation of independence and relatively isolated internal power structure without external interaction and investigation. Just like the case of Enron, the external force that destroyed the ecological system was the investigation body.

In FAW, there are “working groups” at the bottom of the food chain that is IJV contract workers. 'Managing tribes' that is Chinese IJV engineers and production managers who absorb knowledge from MNEs to better manage the IJV operation, 3.'harvesting tribes' that is Chinese IJV marketing managers that harvests the crops (in this case profit generated by the IJV) for themselves as well as for 4. the 'ruling tribes' that is the managers of FAW who offers power and protection for the harvesting tribes. Who themselves get feed from through bribery and favors.

Through establishing the “ecological system” of FAW that was built on its particular non-market environment using concepts of kinship and tribalism. It shines a new light on how IB and management researchers could see the IJV goal setting and parent firm's learning in the emerging market with similar situations. FAW and any other companies without the power of market cutting up the internal tribes and the 'non market ecological system' are just like any “primitive” tribes who has classifications, division of labors, classes and offer sacrifices to superior powers to hopeful avoid “disasters” that are out of internal control.

Chapter 7: Conclusion

7.1 Research Findings

Let's assume that FAW, an automotive manufacturing company owned by the Chinese communist government could learn only one thing from its joint venture partner Volkswagen in the 25 years of collaboration. It must be that an automaker must always design and build its models for the market. This is what makes VW cars thrive in the world and that is the shortcoming of the FAW. But why couldn't FAW simply design and produce a car that the Chinese consumer want? How hard can it be with all the financial and human resources available to FAW to design a popular car for the market?

As the old Chinese saying goes, '近朱者赤, 近墨者黑', learning by example and learning by influence. Learning, was the FAW's key objective when founding the FAW-VW in the 1991. After 25 years, the failure of FAW passenger cars cannot be explained by problems of incompetence. It can only be explained by fundamental human issues. "What makes organisations so similar?" is the question asked by DiMaggio and Powell in 1983. The question this thesis asks is what makes FAW-VW and FAW so different? The answer could not be found in international business and management literature. We have to look broader and dig deeper into the basic nature and structure of human organisations by applying structural social anthropology theories including the sacred and profane dichotomy, solidarity and tribalism.

There are three steps to answer this question.

7.2 The sacred and profane dichotomy of Hongqi and FAW 1956-1985

The consecration of Hongqi since 1958 had created the sacred and profane dichotomy structure of Hongqi. The sacred status of Hongqi had created a strong solidarity force to unify FAW engineers and managers. Hongqi is the totem and the identity of FAW. It represents the glory days of FAW by directly serving Chairman Mao. In an autocratic nation, directly serving the national leader is a great privilege and political achievement. FAW was called "the first born son of the Republic." In 1964, the Hongqi model was officially announced by the central government as the "State Car". The Hongqi model became the official vehicle of national events, diplomatic missions and assigned national leaders' vehicles. Every detail of the Hongqi model carries political meanings. The technologies of Hongqi models of that period were imitations of various leading saloon models made by MNEs. The production methods were primitive. All parts were hand made. The

production capacity was very low and with inconsistent reliability. However, production cost and R&D cost were trivial matters under the sacred and profane dichotomy structure. Under such institutional environment, hundreds of FAW engineers and workers hand cast 100 engine blanks based on the Chrysler V8 engine to only choose 3 best engine blanks, assign each engine blank to a team of engineers and crafted workers to detail using only rasp through day and night for two weeks and finally pick the best one to put in the car that the Chairman Mao would walk around for 15 minutes asking questions and nod in approval. This story was told at the time and to future generations of FAW engineers and workers as the glorious moment of how FAW engineers and workers overcome the technology challenge, do the impossible, because of the utmost loyalty and respect for the Chairman Mao. A story of incompetence and fanatic could easily be packaged as the greatest achievement. More importantly, many sons and daughters of the founding members of FAW took his or her fathers' positions to become the second generation managers of FAW. They have witnessed in person the political glory days of FAW. How their fathers were summoned to Beijing to demonstrate Hongqi models to Party leaderships, even to Chairman Mao. How engineers like Jiang Zemin and Li Lanqing had left FAW to achieve powerful positions and become Party leaders themselves. These observations would have forged their visions for FAW and Hongqi model.

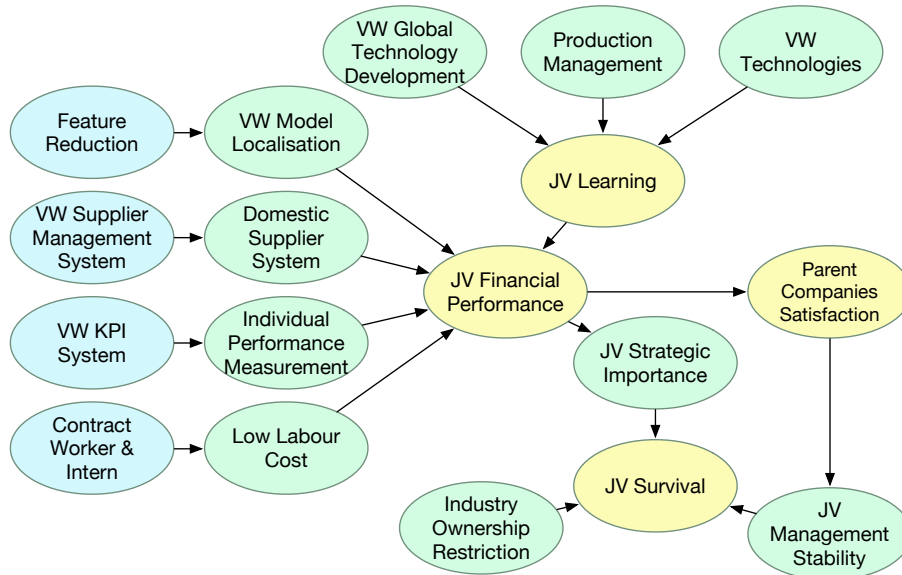
From 1984 to 1991 was a low period of FAW. The Hongqi was ordered to cease production by the central government. FAW managers were humiliated by the central government officials for the poor quality and lack of technologies of Hongqi models. Party leaders have abandon the Hongqi model for imported Mercedes and Toyota Crown. As a political product, Hongqi model's fate was closely associated with political climate, the institutional environment of China. In 1984, Deng Xiaoping held his first and only major military parade to celebrate the 35th anniversary of the People's Republic of China since he took control of China in 1978. As the Chinese tradition, a large military parade shows the leader's absolute control of the military force. Deng chose Hongqi vehicle as his parade vehicle, a political symbol that was closely associated with Chairman Mao, meaning Deng had officially taken his place. Since then, it has become a Chinese communist tradition that a black open top Hongqi is the parade vehicle for the leader for all major military parades. However, that did not change the fate of Hongqi. In the 1980s and 1990s, Chinese leaders were eager to show the world an open image, accepting, welcoming foreign product. Use imported luxury cars in diplomatic missions and as official vehicles send strong political signals to foreign leaders and businessmen, as well as to SOE managers. SOE managers started to find joint venture MNE partners as well as MNE production lines that can be purchased to modernise Hongqi production. Finally, through a long negotiation and partly through the help of Jiang Zemin, the then mayor of Shanghai, FAW had formed the joint venture of FAW-VW. Through the negotiation skills of Lv Fuyuan, FAW had also purchased a VW production line that were used to produce a new Hongqi model based on Audi 100. Due to the political climate of China, the institutional environment of FAW from 1984 to 1991 was modernisation and marketization. Even for the Hongqi model, it is no longer made to the Party leaders, but private and institution customers that want a cheaper alternative to the Audi 100 produced by FAW-VW.

Marketization in the 1990s was an effort to move the SOE from the pure communist politically driven institutional environment to a modern market driven company. FAW needed MNE partners to help with the modernization process of FAW's production and management. FAW also needs profit to make the company self-dependent. FAW-VW was founded to help FAW to achieve these goals.

7.3 Tribalism in FAW-VW

We explored the institutional environment of FAW-VW for its goal setting. In chapter 5, we asked Chinese engineers and staff members about what are the performance goals of FAW-VW? Who set the performance goals? How do they achieve these goals? What do they think of its parent companies and their goals?

Figure 19: FAW-VW goals and its determinants

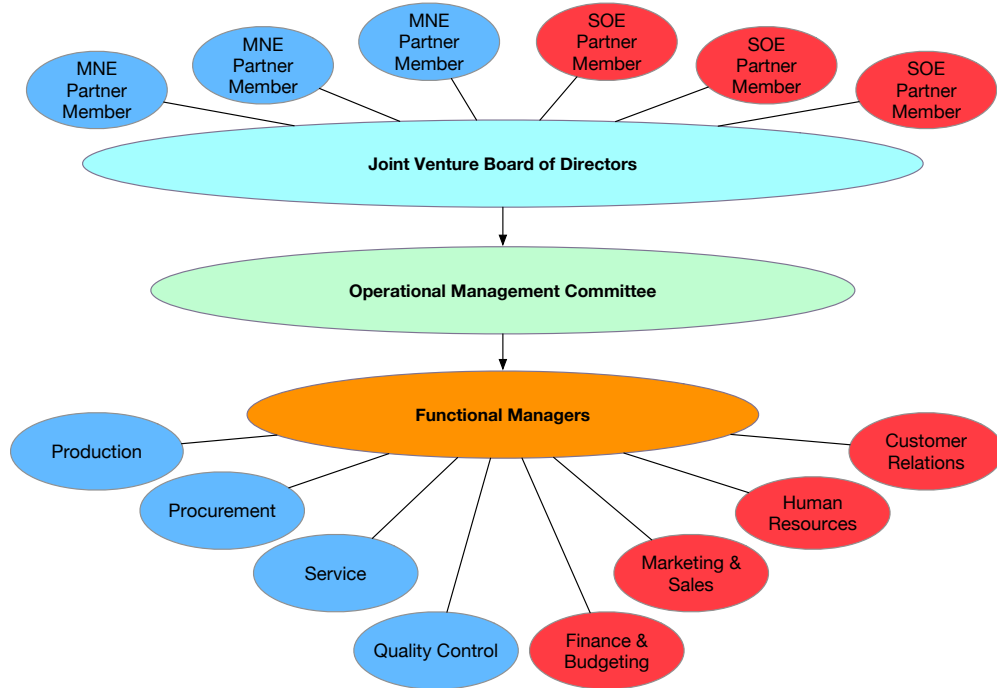


The findings are presented in Figure 19. According to the Chinese engineers and staff members of the joint venture, financial performance measurements including profitability and market share are the key performance measurements of FAW-VW to them. The joint venture goal of learning was accomplished to serve the goal of financial performance. FAW-VW engineers are expected to learn VW technologies to achieve production localization and reduce production cost. All R&D activities of FAW-VW are market driven. It is either for feature reduction, alteration of VW models or localize production of components.

The joint venture financial performance goal is transferred to each joint venture department, supplier and individual engineer and staff member. Joint venture engineer's daily work is focused on achieving the financial performance goal through production cost reduction. Engineers had

introduced me to four common cost reduction measurements of FAW-VW, VW model localization through feature reduction, establish and manage indigenous supplier system, adapt to the individual performance assessment system based on the VW KPI (Key Performance Indicator) system to break down performance goals to individuals and rely on FAW to employ contract workers and interns to reduce labour cost. Joint venture engineers are in charge of communication between factory workers and department managers.

Figure 9: split management structure of FAW-VW



The strong market performance makes FAW-VW strategically important to the VW and FAW. Although each parent company did attempt to take more shares of profit out of the joint venture, parent companies overall satisfaction had given FAW-VW more independence and management stability, together with the confidence in the continuation of industry ownership restriction, joint venture engineers are confident in joint venture survival. Some of the performance determinants summarised from literature are not as relevant in the circumstance of a strong joint venture. Determinants such as parent companies' commitments and cooperation and goal congruity. As shown in the figure 9, FAW-VW split management system allows VW assigned managers to control production related departments and FAW assigned managers to control service related departments. The joint venture board made up by parent companies assigned managers to deal with negotiations with parent companies. Only top managers have contracts with the assigned parent company and the joint venture. The split management system avoids parent companies' conflicts sink to the operational level of the joint venture. The daily management is conducted by department managers who are contracted to the joint venture. The board of FAW-VW is also in charge of making long term strategic plans for the joint venture which need approval from all

parent companies. As these plans are associated with VW's strategic plan, the FAW-VW long term plan often plan 5 years and 10 years ahead. Because the plan needs approval from all parent companies, it is also hard to change. Such consistency provide assurance to the joint venture engineers and staffs. This level of security and independence was achieved by the strong bargaining power of the joint venture that came from its long term strong market performance. After 25 years of negotiation and collaboration, trust, conflict and resolution mechanisms are strong within the FAW-VW. Parent companies fighting to get more shares of profit is resolved by negotiation and more independence to FAW-VW. Organisational justice is also part of balancing the system, FAW-VW rely on FAW to organise low cost labour force, so it also allows a few privileged formal workers on the payroll. Interestingly, I have found Chinese engineers often naturally distance themselves from FAW and are much fond of the VW.

The achievement of strong market performance of FAW-VW is a result of its institutional environment of being an independent company with its independent identity and protective of its own interests. According to the joint venture literature, MNE and SOE parent companies have contradictory goals for the joint venture (Lyles and Salk, 1996). Through data analysis, from the Chinese engineer and staff member perspectives, the joint venture financial performance seemed to be the only goal to them. The FAW goal of learning is non-existent in FAW-VW according to Chinese engineers, the group of people who absorb knowledge of VW technologies, production management, supplier management, localise VW model for domestic market and contribute to VW global model development. All of the knowledge the FAW needs and should be desiring to get. To these engineers, FAW, the majority owner of FAW-VW is like another planet.

After 25 years of FAW-VW. I found Chinese engineers and staff members working in the FAW-VW think themselves as too professional and modern to SOE. Part of this confidence is based on the pride of superior VW technological knowledge they possess and the strong market performance of the joint venture. They are proud to be part of the VW technology development team. They do not care about ideologies of developing SOE or interested in domestic industry development. They alienate themselves from FAW. They showed no sympathy of FAW market failure but rather annoyed by the high spending on SOE R&D. Some engineers and staff members kept refer to the FAW R&D spending as money 'we earned'. These joint venture engineers are also annoyed at how some individuals with connections to FAW could become a formal worker in the joint ventures and not following their instructions. Although they also have conflicts with VW assigned managers, they see these managers as individuals. They don't say German managers are.... VW managers are..... Instead, they analyze each VW assigned department managers from their personal backgrounds to find clues of why certain individual are behaving in a certain way. The production related departments of FAW-VW are designed to be identical to VW. VW rules are followed in these departments. Thus FAW-VW Chinese engineers are working with VW technologies, on VW models, measured by VW KPI system, participate in VW global technology development process, managed by VW assigned managers. They have been 'VWlised', or at least they think they are, which is more important.

7.4 Ecological system of FAW

We explored the ecological system of FAW for its goal setting. In chapter 6, we asked questions to the FAW engineers and R&D manager about what are the performance goals of FAW? Why these performance goals? How do they achieve these goals? What do they think of its successful FAW-VW joint venture?

There are three performance goals of FAW emerged from the interviews. These are financial performance, indigenous technology development and indigenous model development (Hongqi model). However, I have found these three goals contradict to each other. Since 2010, FAW had spent 32.84 billion RMB (3.28 billion GBP) R&D budget (FAW website) to develop just two FAW models, Hongqi L5 and H7. Both targeted at the government car market. Large amount of R&D budget was spent on developing a new L platform to produce L5 only. The Hongqi L5 model is priced at 5 million RMB for the private market and only 21 units were sold to private buyers since 2013 (China Business Journal, 2015). The Hongqi H7 models was sold at a much lower price of 450,000 RMB. However, due to the government car regulation change under the new Party leadership. Only less than 5,000 units of H7 was sold in 2015. It is insane when I first heard about this. Other Chinese people react the same when I told them about this. The first question came to my mind was how do they spend this amount of R&D budget on just two models? That answer comes to the second FAW performance goal, indigenous technology development. As I was an industry 'expert' on ADAS technologies, I know automakers expect the technology to be mandatory in the future. Although the technology was still a luxury feature in 2012, it was expected to be a standard premium feature on popular vehicles in 5 years, as it is now. With the positive market trajectory, automakers usually would develop a ADAS system internally or with its suppliers to reduce cost. It would make all the business sense for FAW to develop a ADAS system internally or with indigenous suppliers. Once developed, the system can be easily integrated to all models. However, through interview with FAW R&D manager, I found that they have bought the system from a premium European supplier. They not only bought the system but bought it through the technology transfer contract, so they can modify and rename the system their own, and get some 'new practical patents' out of the system. But not only they have to pay a premium cost for the transfer but also the expensive cost of buying the system for each unit from the MNE supplier. The manager told me it was a FAW self-developed system, but after he found that I knew the source of the technology he bragged about how advanced the system is. I found that this is a common practice of FAW. Instead of develop a technology internally or co-develop with indigenous suppliers, FAW would purchase the technology from premium MNE suppliers through technology transfer contracts to get patents. Patents are the priority of FAW R&D performance measurement. There are reasons for buying expensive technologies from premium MNE suppliers. Distrust of indigenous suppliers R&D capability and product quality. The model development circle was too short, there is no time to develop the technology internally. For models like Hongqi

L5, a model made for the Party leader, FAW has no room for mistake, everything must be in top notch, especially safety features. I have also found through data analyses, there is a lack of consistency in FAW R&D activities. Every FAW engineer (including engineer who had worked in FAW) I have interviewed had experienced abolishing R&D projects. The reason for this inconsistency varies from change of division manager, CEO, manager or CEO or someone with power want to start a new project, can't get patents, can't get enough patents, or can't get patents quick enough. I have found the lack of consistency in R&D is not only expensive to companies but also could really hurt morale of the engineers. Two FAW-VW engineers specifically told me they are very happy with FAW-VW because of the consistency in technology development, for that reason, they would never work for FAW (or again, in one case).

The first two goals contradict with the goal of FAW financial performance. But to my surprise, FAW Group has made an annual profit of 40.2 billion RMB in 2012, thanks to its profitable joint ventures. As the result, it can afford the 32.84 billion R&D budget stretched over a few years, it can buy the top notch safety system from MNE suppliers for the instant patents and of course it can change the direction of R&D once in a while.

Now, how do we make sense of all these findings theoretically?

7.5 The sacred and profane dichotomy, solidarity and tribalism

Theory is “a statement of concepts and their interrelationships that shows how and/or why a phenomenon occurs” (Gioia and Pitre, 1990, Coley and Gioia, 2011). There are three theories from structural social anthropology that are relevant to the case: 1. solidarity of human organisations: individuals in a group need to be unified under the identity, rule and common interests, 2. The sacred and profane dichotomy. The sacred becomes the totem of the group, 3. tribalism, made up by bands and have clear boundaries from external pressure. The main contribution is that company is just like a human tribe.

The phenomenon this thesis studied was FAW, a Chinese state-owned automotive company that has majority ownerships of several successful international joint ventures with leading MNE automakers, is incompetent to make its passenger car successful in the Chinese market. While its long-term joint venture FAW-VW has been highly profitable in the market. Academically, little is known about why Chinese state-owned carmakers as parent firms to some very successful international joint ventures failed to learn from the partnerships to develop its indigenous brands (Nam, 2011).

Existing theories of organisational learning such as the absorptive capacity theory could not sufficiently explain this phenomenon. In the case of FAW, the knowledge source is available, FAW has 60 years of experience making cars and more than 25 years of experience managing profitable joint ventures. The Chinese government encourages, to certain degree enforces MNEs

to bring their technologies to China. There are experienced Chinese engineers and managers working in the joint venture. There was a 32.84 billion RMB (3.28 billion GBP) R&D budget to develop just two FAW models (FAW website).

In an ideal world, FAW should use its R&D spending to attract experienced engineers to develop technologies for models that would be popular in the market. All of its research projects would follow a pragmatic and consistent long term strategic plan. FAW would give adequate time and resources to support these technology development projects. These technologies would go through rigorous testing and be installed in models that are designed to be competitive in the target market segment. With resources and knowledge accumulation, FAW could offer competitive luxury models for the government car market as well as the luxury car market. The reality is the opposite from the ideal world.

The existing theories of learning such as the absorptive capacity theory focuses on the capacity of the host country company, actions it should have taken. It should have done more engineering training, it should have start more collaboration projects, or maybe it should get more efficient. This thesis argues, after 25 years of managing FAW-VW. The failure of FAW's learn is not because of its incompetent, but its institutional environment.

It is well established in the literature that “foreign parents are seen as reservoirs of both technical know-how and managerial (process-related) knowledge” (Child and Markoczy 1993, Lyles and Salk, 1996). To achieve explicit and tacit knowledge transfer, especially in manufacturing sectors, are objectives of the Chinese government and SOEs. In exchange for knowledge transfer, the government had given market access to foreign firms (Buckley, Clegg & Tan, 2003, Engardio, Roberts & Symonds, 1996, Brewer and Nollen, 1998).

We found FAW's ludicrous, ‘patent driven’ R&D activities would be regard by quantitative knowledge flow measurements commonly used in the literature as successful in knowledge development. Researchers quantify the explicit knowledge represented by patents and R&D spending (Teece, 1977, Mowery, Oxley & Silverman, 1996, Patel and Pavitt, 1994, Inkpen and Pien, 2006). However, in the case of FAW, the patent driven R&D have negative effects on the actual long term knowledge development. The key knowledge of modern car manufacturer is to build, develop, manage, integrate and monitoring a supplier network (Alcacer and Oxley, 2014, Corredoira and McDermott, 2014, Khan, Shenkar & Lew, 2015). FAW could learn that from FAW-VW engineers and managers. But due to the pressure of patents and L5 model development, it chose to purchase directly from MNE suppliers at a premium price. To FAW, knowledge possessed by FAW-VW engineers are not valid to its need. The data analysis shows that “learning” have different meanings to the engineers working for FAW-VW and to the engineers and managers working for FAW. To FAW-VW engineers, learning means technology localisation for cost reduction. To FAW engineers and managers, learning means technology localisation for patents.

7.6 The ecological system: corruption and sacrifice

From 2013 to 2015, there were 80 FAW managers arrested on corruption charges, including Xu Jianyi, the president of FAW. The Hongqi L5 model development was his project for the Party leader. How can we make sense of the institution of FAW in the context of China theoretically?

We can probably say that it is a matter of historical record that ‘communist’ revolutions only happened in ‘collectivist’ societies. Hofstede’s original data only covered countries in which the computer company, IBM, was operating at the time of the original fortuitous survey. This meant that the then ‘communist’ world, China, the Soviet Union, and other ‘communist’ countries of the time were not included in the data set, for the simple reason that IBM did not, and could not, operate in such countries at the time.

In China, the over-riding importance of lineage, and of family relationships of a hierarchical kind, is as deep as we have records (Freeman, 1966). We know that lineage was important in China. It is of great importance here that we understand what ‘collectivism’ really means in this studied content. ‘Collectivism’ is often glossed as ‘willingness to sacrifice oneself for the greater good’. However, there are two dramatically different conceptions of ‘the greater good’ in China, which are in conflict. In one, ‘the greater good’ means the greater good of the collective to which one belongs. A collective that is defined, in traditional Chinese societies, by kinship relationships. Let’s call this the ‘traditional’ collectivism. In the other, ‘the greater good’ means, or aspires to mean, the good of society as a whole, where ‘society’ is interpreted to mean the entire nation, or the Party. Let’s call this the ‘communist’ collectivism.

‘Collectivist’ societies, if they can be usefully described as such from Hofstede’s ideas and metrics, are societies made up of a myriad of collectives, of many possible sizes, all of which define their own membership and greater good as against all the others. A ‘collectivist’ society is not one in which everybody is unselfish. It is one where every ‘collective’ is supremely selfish in its relation to every other. That is why ‘collectivist’ societies are, in Fukuyama’s terms, also ‘low trust’ (Fukuyama, 1996).

It is a dreadful and inevitable irony, that ‘communist’ revolutions only seemed to happen in ‘collectivist’ societies. ‘Communist’ revolutions occurred in societies which consisted of many small, self-interested collectives. The communist aspiration and ideal was to make everybody within the nation work for the good of the entire nation. In order to achieve this, the Chinese communist authorities found themselves at war with the fundamental building blocks of the existing societies - self-sufficient, agrarian kin groups, which aspired to ownership and prosperity. These self-interested kin groups were regarded as the ‘bourgeois’ and ‘individualist’ enemy of the communist regimes, and were attacked and persecuted accordingly. Some of the greatest and most destructive attacks on people and wealth in world history, were perpetrated in the name of communism, in order to build a society where ownership was vested in all the people, not some of

the people. The coerced impoverishment and starvation of many Chinese during the ‘Great Leap Forward’ of the late 1950s, are testament to the violent opposition between the ‘collectivism’ of the previous period, and the ‘collectivism’ at a national level, which the communist revolutionaries were trying to create. The communist systems, after some decades of trying, failed. It is the aftermath of this failure, in China, which concerns us here.

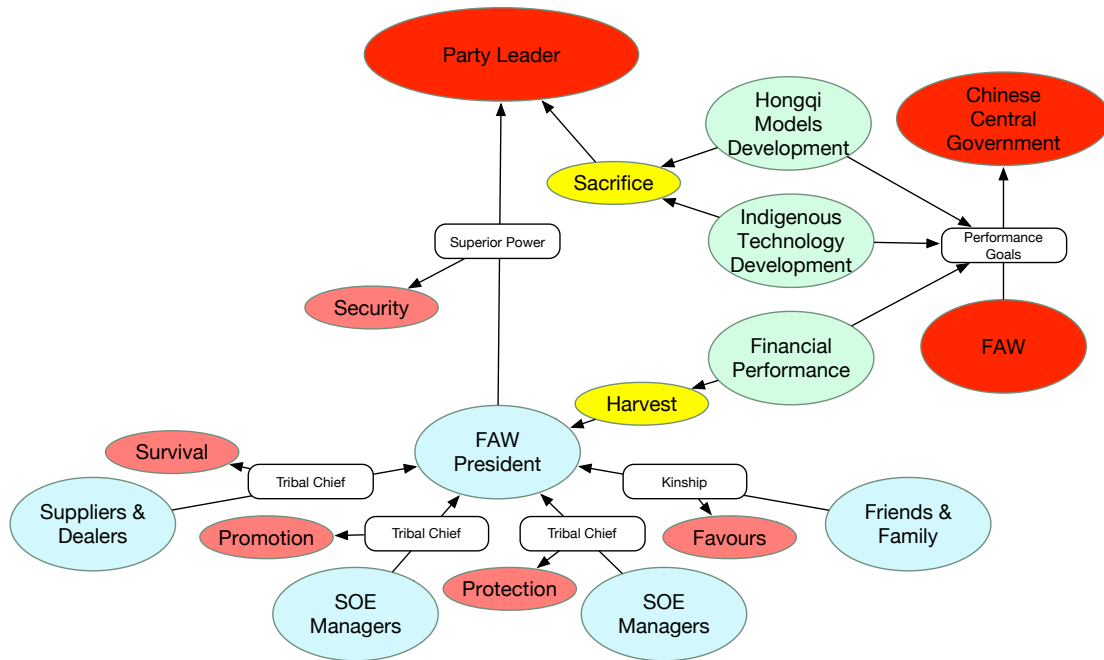
From the late 1940s until 1979. China tried to nurture a regime where property was invested in all the people, where wealth was evenly distributed, and where innovation and growth came from within, free from the external exploiters of the capitalist world. As analysed in chapter 4, this was also the glory days of Hongqi and FAW. The handshake with Chairman Mao. The story of 99 discarded engines. The constant trips to Beijing to present new models to Party leaders.

By the late 1970s, it was becoming clear that China was falling further and further behind the rest of the world. This was not a new experience for China. The end of Imperial China had brought much increased contact with, and commerce with, the rest of the world. The communist period was, in a sense, a step back into this earlier autarky, which similarly failed. China needed to catch up with the rest of the world, and the major step in this is credited to Deng Xiaoping in the late 1970s.

A version of full national ownership, then some privatisation, then socialism with Chinese characteristics. The desire of the state to step back in favour of private ownership and the desire of the state to retain ownership for political purposes. The desire of the state to emulate the success of the ‘western capitalist world’ and the reluctance of the state to make the ‘western capitalist world’ a model. The desire of the consumer to consume the products of the western capitalist world. The desire of the state-owned company to make products as good and as desirable as those produced by foreign companies. The desire of the state to achieve technology transfer between foreign companies and Chinese companies

All these are part of the framework wherein the managers whose stories are told in this thesis try to make sense, of themselves and of what they are doing. The sustained ambiguity about attitudes to the gathering of personal wealth. The ambiguity between the ‘collective’ of kin, and the ‘collective’ of the state (and the attendant mythology of ‘collective’ ownership)

Figure 18 the ecological system of FAW



How does SOE parent company learning come to this? Why don't FAW attract the best engineers and managers from its joint ventures to work on indigenous model development? Why don't FAW establish a low cost and efficient indigenous supplier system? Why FAW's goal of learning was not part of the joint venture performance measurements? Why FAW-VW enjoyed such high independence? Why don't FAW design a competitive car in the market?

There is only one answer to all these questions. Just like all these phenomena of the ludicrous R&D budget, the normalised corruption, the managers of joint venture sales department and the 'patent driven' R&D are all construct on one foundation - profitable joint ventures.

The market driven, more efficient institutions (FAW-VW) did not defeat/replace/assimilate the politically driven, less efficient institutions (FAW) as anticipated/hoped/assumed. They coexist harmoniously within the FAW group. The market driven, more efficient institutions prolonged the life of the politically driven, less efficient institutions.

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Appendix The IJVs networks of major Chinese SOEs

