

## Chapter Three

### Negotiating spaces

This chapter tells the story of a Sino-Dutch joint venture operating in China over the past few years. It takes a fresh look at the various conflicts that have arisen from its inception until the time of writing. A theoretical model will result, the purpose of which is to offer a simple set of analytical tools to describe the complex organisational processes in which transnational ventures of this type are involved. I will gradually introduce the conceptual framework in the case description and show how it can help reveal the organisational complexity of the case.

The emphasis will be on the use of narrative analysis in organisational research. The narratives to be used here consist mainly of articles related to the joint venture, which appeared in a Chinese industrial bulletin around the time a crucial event in the history of the joint venture occurred. A limited number will be analysed to show how they reflect organisational processes. This part of the theory will draw heavily from the work of Boje (1991, 2000; Boje e.a.(2001)). For details of the origins of the theory, see Peverelli (2000).

I am personally involved with this joint venture in two contexts, or spaces, to adopt the terminology to be used in what follows (see Peverelli 2000, which also uses the case). I come to the case as an academic researcher into organising processes, but I am also involved in the case as the consultant to the Dutch party. In line with my theoretical framework, to be explained in the following, this means that this chapter is written in two different spaces, so that the text is an ongoing negotiation between those two spaces, even though it may be perceived as a singular text. Some of the mind-jumps in the text will be better understood if this is kept in mind.

#### **1. Case history: Joint venture swept under the carpet**

##### *1.1 The stage setting and core terminology*

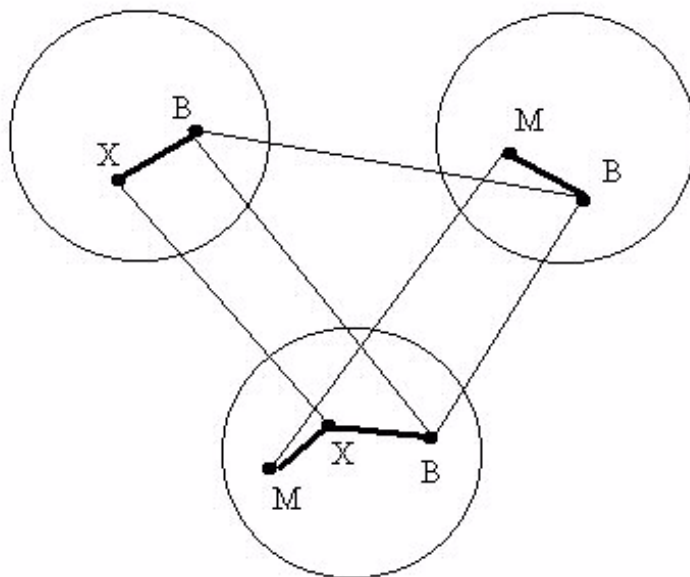
The Western party is a medium sized Dutch dairy company, Milco. The Chinese partner is Xiangnai, a dairy company located in Huanui County of Shaanxi Province. Milco is also cooperating with a Hong Kong based trading company, Blackwell. Milco was contacted by Blackwell sometime in the mid nineteen nineties, because Blackwell was looking for a foreign partner on behalf of Xiangnai. Milco was willing to consider a joint venture with Xiangnai, with the condition, however, that Blackwell would co-invest, to consolidate their interest in the endeavour. Milco and Blackwell were first to establish a joint venture in Hong Kong, and then to enter into a joint venture with Xiangnai. Blackwell agreed, and the joint venture started operating as from January 1, 1996. The foreign parties held 25% of the equity of the joint venture; Xiangnai held the

remaining 75%. The Chief Executive Officer (CEO) of Xiangnai became the CEO of the joint venture, which was located in Huaniu county, adjacent to Xiangnai's existing plant.

These paragraphs already contain sufficient information to introduce a few technical terms. The first one is social-cognitive configuration, or configuration, for short. Configurations are defined as 'a small numbers of actors frequently interacting on a very specific topic.' They consist of a social element, the actors involved, and a cognitive element, the ideas, perceptions, worldview, etc. shared by the actors (for an elaborate introduction of this concept see: Van Dongen e.a. (1996: 81-108) and Peverelli (2000: 18-21)).

The second key term is, inclusion. Members of a configuration are said to be included in it. Actors are usually interacting in a number of configurations, referred to as multiple inclusion. When interacting in a certain configuration, actors can access the cognitive element of other inclusions, which is an important motor for ongoing organisational activity.

My stage setting introduces three configurations of the CEOs of the three companies. (Here I will use the names of the companies, while referring to their CEOs):  
Xiangnai + Blackwell: finding a foreign partner for Xiangnai  
Milco + Blackwell: cooperating as the foreign partner of Xiangnai  
Xiangnai + Blackwell + Milco: cooperating in the joint venture  
This situation can be represented in the following graph:



The thin lines indicate relations of identity of actors in different configurations; the bold lines connect actors who are included in the same configuration.

This analysis, in terms of configurations, and in particular, the graphic representation of the inclusions of the three CEOs, reveals that Blackwell is included in all of them. Thus we are able to discover the potential problem for Milco: There is no context including Xiangnai and Milco, and lacking Blackwell; all interaction between Xiangnai and Milco includes Blackwell. As Milco has much fewer opportunities for interacting with Xiangnai, Blackwell becomes the relay station in the communication processes between Milco and Xiangnai.

We need one more core term to understand the activities going on in this case: cognitive space, or short: space. A space is essentially similar to a configuration. The number of actors is large(r); their interaction less frequent and the shared cognitive matter is much vaguer. In terms of everyday speech, examples of spaces are: companies, industrial sectors, cities, provinces, nations, etc. A company, like our Milco, is a group of actors (the employees) with a shared cognitive element (e.g., how we do things at Milco). However, not all employees of Milco will interact with all other employees with equal frequency. Space as defined here resembles the sociological term aggregate, but the construct is augmented with a cognitive element. Many spaces start their life as configurations. Some configurations will attract more and more actors, during which they will gradually develop into spaces. Most configurations perish after the need for their existence disappears (for an elaborate introduction on cognitive space see Peverelli (2000: 26 – 126)).

A number of such spaces appear in the stage setting:

I will begin with administrative levels. Huaniu, Shancheng and Shaanxi (as well as China) are spaces in which activities, institutions, etc., will each be given their own particular sense. For example, an enterprise like Xiangnai may receive a different sense, with different organisational consequences, for each administrative level. In Peverelli (2000: 90-96) I made an analysis of news items on a Chinese enterprise over the period 1988 - 1999, and considerably different identities for that enterprise could be found on the municipal, provincial and national administrative levels.

Another type of space is the industrial sector. Although not directly observable from the text, it is known that Chinese industrial sectors, through their supervising organs (typically a ministry), highly affect the operation of enterprises within their scope. Xiangnai and the joint venture are dairy companies. The dairy sector is a food sector, and food belongs to Light Industry in China. However, Agriculture also plays a role in food production, in particular in the dairy industry. The CEO of Xiangnai started out as a farmer and he and his original enterprise are included in the Agriculture space, headed by the Ministry of Agriculture. Many aspects, like quality specifications, are managed from the Light Industry space, headed by the Bureau of Light Industry in Beijing. There are more of these sectors, but I will restrict myself to these two in this chapter. We can envision the above-mentioned types of spaces as forming a grid:

	Agriculture	Light Industry
Huaniu	1	5
Shancheng	2	6
Shaanxi	3	7
China	4	8

*Fig. 1. A highly simplified matrix of administrative and sector spaces.*

The reader should note that this table should not be interpreted from an 'either/or' point of view. Xiangnai does not 'belong' to one particular cell. Each cell in this table refers to a context of Xiangnai. Tables like this are a useful aid to remind us of the infinite nature of organisational complexity. Xiangnai as a Light Industry enterprise in Huaniu makes sense in a different way than Xiangnai as an Agricultural enterprise in Huaniu. In the same way Xiangnai as a Light Industry enterprise in Huaniu is given a different meaning than Xiangnai as a Light Industry enterprise in Shancheng; etc.

In the initial stage of the contacts with potential Chinese partners, Western companies should make an inventory of the most important spaces involved and should keep track of the meaning of their activities for each space. This should continue throughout the negotiation and implementation stages of the project. An interesting example is the fiscal status of the joint venture. In browsing through the documents related to the establishment of the joint venture, I noted that all documents related to tax were issued by organisations located in Shancheng. Apparently, the sense given to the joint venture in the Shancheng space is that of a tax generating unit.

## 1.2 Initial success

The initial success of the joint venture agreement was announced in an article on the front page of an influential Chinese food industry news bulletin, published within the Light Industry space on December 2, 1997. The appearance of such an article is of the utmost importance in our methodology, as it provides a number of cues allowing insight into the social cognitive context of the reported events. First of all, front pages of Chinese publications like this are rarely filled with 'news' in the sense of interesting items and stories submitted by neutral reporters to a responsible, equally neutral editor, who will then make a final selection. The bulk of the space on the front page is filled either with articles from government organisations, or with articles about parties who pay for that prime position. The latter usually also hand in the draft texts themselves. This means that the article announcing the establishment of the joint venture (longer than the average article about similar subjects), could very well have been arranged by the local authorities, or by Xiangnai themselves. Later in 1996, another article appeared in the same publication, again on the front page, praising the excellent performance of the joint venture. Both articles were written by the same person. The apex of the joint venture's success was probably its prominent position in the statistics of the Chinese dairy industry of 1996 (published in the 1997 China Food Industry Yearbook). The joint venture ranked in the eighth position according to output volume, third according to tax generated, and

first according to profit generated per employee. In terms of sector space, this Yearbook was published within the Light Industry space, under the auspices of the China Food Industry Association.

At this time, the joint venture partners were engaged in discussions concerning further investment. The agreement stipulated that Milco would invest considerably more in case of a successful start, but Milco was not very content with certain aspects of the cooperation. Milco was especially dissatisfied with the lack of information coming from China, in particular the problems in obtaining regular financial statements. Almost all initiatives by Milco to gain more influence in the daily management of the joint venture failed. Milco's CEO got in contact with a China consultant (your author) based in his home country, the Netherlands, from whom he started taking background advice on a case by case basis. However, Milco was reluctant to make full use of the consultant, because it feared that this would arouse suspicion on the part of Blackwell, which could negatively affect the relationship between Milco and Blackwell.

As already indicated in section 1, the Light Industry space was apparently a major context in this project. Xiangnai was able to arrange the regular publication of its material on the first page of a Light Industry based food industry magazine. As these news items were signed by the same reporter, I have made a search for other publications by this author. This person seemed to be the local correspondent of the magazine in Shaanxi province, as all his articles dealt with events in Shaanxi. This is a significant cue within my theoretical framework. Chinese reporters specialising in a certain region and/or industrial sector become part of the networks in that region and/or sector and are frequently used to produce texts like the ones that form the central theme of this chapter. It is a win-win situation, where the reporter is in need of 'news' and regional governments or companies are in need of publicity. Researchers can use this information as one tool for the detection of social-cognitive structures.

The China Food Industry Yearbook is also a Light Industry publication. It is rare for an enterprise with foreign investment to appear in such a prominent position in such a major statistics publication. This seems to confirm that Xiangnai had considerable influence in the Light Industry hierarchy, even outside its home region.

This is a good point in our discussion to look at a concrete instance of Chinese style free publicity as an example of narrative analysis. I have selected an article that summarises the success of the joint venture. I will first provide an integral translation of the article, followed by an analysis of its contents. For brevity's sake, my analysis will concentrate on one topic: the way the text reveals the complexity in the relationship between Xiangnai and Milco:

**China Food Bulletin December, 1997**

**'Conquering the market relying on technology and talent**

**Xiangnai Milco Dairy Co. Develops Spectacularly**

*from our correspondent (reporter ZJJ)*

The Shaanxi Xiangnai Milco Dairy Co., Ltd. has increased the company's overall strength by relying on talent, and advanced technology and equipment. Profits have increased to a great extent, and the company's development has entered a phase of rapid pace.

Last year, the volume of the company's main product, high grade milk powder reached 8000 Tons, 33.3% more than same period of the year before; the turnover was RMB 90 mio, 29.8% more than same period of the year before and a profit-tax of RMB 7.5 mio was completed, 35.3% more than same period of the year before.

Shaanxi Xiangnai Milco Dairy Co., Ltd. is a joint venture between the former town operated Huanui Xiangnai Milk Powder Factory and the Milco Co. from the Netherlands. After the establishment of the joint venture, Xiangnai Milco Dairy Co., Ltd. invested RMB 68 mio in importing milk powder technology from the Netherlands, to completely improve the technology related to cooling, evaporation, spray drying, packaging, etc., and to automatically control the specifications of the raw materials and the production process, thus effectively guaranteeing product quality and the efficacy of the entire staff. At the same time, they imported from Germany a vacuum milk powder nitrogen packaging line and production lines for yogurt, lactic acid beverage, ice cream and UHT (Ultra Heat Treatment; a way of sterilising milk in such a way that it can be kept for some time at room temperature; PJP) milk., thus bringing the production equipment, and environment a big step closer to the international level.

To adjust to the advanced technology, the company quickly educated highly talented, highly educated, quality technical staff. Dutch experts visit the company each year for a period of 6 weeks to give on the job training. At the same time, 16 experts, including doctoral student supervisor Luo Chengxiang and senior engineer Zhang Baofeng, were hired to come to the company annually for a period of not less than 60 days and to at least complete one R&D project.

To further improve the talent structure, last year the company hired 10 graduates from higher or intermediate vocational schools, to enrich each position.

Currently, technical personnel at the level of assistant engineer or higher make up 28% of the total staff, staff with 10 or more years of experience in dairy, make up 55% of the total staff. As a result a brigade of technicians has been formed that is rarely seen in the industry elsewhere in China.'

The first impression the uninitiated reader will get is totally positive. The report is about two parties engaged in successful cooperation. The story of the text can be divided into three parts:

- an introduction expressing the success of the company in figures;
- a section on imported technology;
- a section on the development and quality of technical staff.

The latter two sections show a linguistic similarity: they consist of two parts separated by the phrase 'at the same time (*tongshi*).'. The author is describing two different stories that are taking place simultaneously. In the section on technology we are first informed about the technology imported from the Netherlands, the home country of the foreign partner. We then read about more technology imported from Germany; bringing 'the production

equipment and environment closer to the international level.' This statement implies the Dutch contribution was insufficient to fulfill all needs on the technological level. However, we can also interpret this section as containing negative implications, as stating that, although Milco basically did what it was expected to do, it also left something to be desired.

In the following section, this mode of narration continues. We first learn about the activities of Dutch experts, which are set off against the activities of Chinese experts. While the Dutch experts stay six weeks, the Chinese stay at least 2 months and are obliged to finish at least one project during that period. Again, through the layer of factual verbal meaning, we can sense criticism of Milco, an implicit charge that it is not doing enough to make the joint venture achieve the desired success.

In terms of cognitive space, it seems that the cooperation is reviewed in this article from two different spaces. The phrase 'at the same time' is like a linguistic wedge indicating a switch to another social-cognitive environment.

The reason for this multiplicity in reporting is to be found in the different audiences for which it was written. Foreign investment is not regarded as a blessing in all circles in China. An entirely positive report might have elicited criticism from certain parties who would have felt that Xiangnai was throwing itself at the feet of Milco. This multiple style of narrative tones down the overall enthusiasm to a level that can be expected to be acceptable to readers with chauvinistic tendencies.

On yet another level, this mode of narrating the success of the cooperation can also be viewed as a mirror held up by Xiangnai for Milco to 'look at itself.' It is as if Xiangnai is saying: 'you did a lot, but not all we expected.' Technology from other foreign regions was needed as well. The Dutch experts could only do their work in collaboration with their Chinese colleagues, and the Chinese appear to have done a better job, as they obliged themselves to actually 'finalise' a project.

### 1.3 Conglomeratisation

The Huaniu government announced a merger of three dairy manufacturers in the region into one large conglomerate in October 1997, named, Xiangnai-Group. This also included the joint venture. The CEO of Xiangnai was appointed the CEO of Xiangnai-Group as well, which meant that he was now the CEO of Xiangnai, the joint venture and Xiangnai-Group. Milco was asked to give its consent, which it did. The consultant urged Milco to be wary of the possibility of completely losing control over the operation in China, but Milco replied that, according to the local government officials, Xiangnai-Group would only act as the sales organisation for the members. Those members would remain virtually independent.

The establishment of Xiangnai-Group was officially announced in the food industry news bulletin mentioned above, once more on the front page, in January 1998. We will take a look at it first:

**'Erasing internal consumption; Expanding capital  
Three dairy factories in Huaniu form a group  
from our correspondent (reporter ZJJ)**

Huanu County in Shaanxi province has recently formed the Xiangnai Dairy Group. This was formed from three close by dairy factories belonging to different departments, the idea being to erase internal consumption and expand capital. It is already operating. This is the first multi-departmental dairy group involving multiple ownership in China. Huanu County in Shaanxi province presently has 33,000 cows and in a number of years the county has consecutively established three dairy factories belonging to the departments of Animal Husbandry, Township and Commerce. Thus creating a situation of mutual competition and fighting for milk resources.

As of last year the government of Shaanxi has made the dairy manufacturing in that county the first batch of key projects in the effort to industrialise agriculture. Also the decision was made to increase the production of dairy products from the current 15,000 MT/yr to 50,000 MT/yr in order to stimulate the industrialisation of the agriculture of the entire county.

Based on this situation, the government of Huanu has taken the lead to join, under the condition of volition, Shaanxi Xiangnai Milco Dairy Co., Ltd., Shaanxi Xiangnai Dairy Co., Ltd. And Huanu MX Dairy Co., Ltd., using their net assets as equity.

Subsequently, the Huanu Cardboard Box Factory, Dairy Cattle Training Farm and Oat Flakes Factory were incorporated through mergers and liaisons. The group presently has total assets of RMB 145 mio, forming a conglomerate enterprise combining private, collective, state and foreign capital in which different economic segments coexist.'

In June 1998, another article (yes, in the same publication, again on the front page) was published relating the fierce struggle of Xiangnai-Group to survive in the competitive Chinese dairy market. In this article 'foreign capital' was still mentioned, but the name of Milco was not disclosed. A month later, a list of the top 10 dairy manufacturers of 1997, ranked according to turnover, was published, with Xiangnai-Group ranking eighth. With the appearance of those statistics, Milco seemed to have been erased from the history of the Chinese dairy industry.

The consultant advised Milco to learn more about the other members of Xiangnai-Group, but Milco failed to recover such details. Contacts between the various parties were dominated by the discussion regarding further investment, and these discussions were intensifying.

Conglomerates like Xiangnai-Group are a relatively new Chinese type of business organisation (for an introduction, see Keister (2000)). They are usually centered around a large company, which is already recognised in their industry, or the authorities of its home region, as occupying a leading position. The other members can be 'tight,' 'semi-tight,' or 'loose' members, according to the degree of control the core enterprise exercises over them. The main purpose of establishing conglomerates is to let ill managed enterprises benefit from enterprises in the same, or related, sectors that are doing well. Such conglomerates can be established by agreement between the member enterprises, but are also often enforced by local governments. Complaints can be regularly heard from



companies being coerced to joint such conglomerates, and even appear in the official press.

We will now examine what the article introducing the conglomeration is telling us about the decision to establish the Xiangnai-Group. I will again restrict myself to one major theme: the role of administrative and sector spaces as introduced in the matrix of fig.1 above.

The first paragraph of the article emphasises the role of the county government in the formation of the conglomerate. The departmentalised structure of the Chinese economy, which I have already touched on, seems to be another major theme of the article. It appears twice in the opening paragraph, where it is said that dairy factories of three different departments have been united and the main result of this union is a more efficient use of resources. In the second paragraph these departments are mentioned:

- *Animal Husbandry*: this is part of the Agriculture space. It inherits the cognitive element of Agriculture, but will also have more specific cognitive matter of its own;
- *Township*: this is an administrative space, rather than a sector space. I did not enter it in the matrix, but it is a subdivision of the county. It inherits the cognitive matter of Huaniu, but will also have its own specific traits;
- *Commerce*: this is an older name for what is currently known as Internal Trade, the sector space responsible for the domestic distribution of goods, but which also, on a small scale, engages in processing primary products.

The initiative in the conglomeration is taken at the county level. The county government is said to have formed the Xiangnai Dairy Group. Further in the text we are even told that the Huaniu government 'has taken the lead.' The power by which the county has made that decision is specified. The provincial government had made the Huaniu 'a leading county in the program of industrialisation of agriculture (*nongye chanyehua*).'<sup>1</sup> This is a rather formal expression adopted by the central Ministry of Agriculture to refer to the modernisation of agricultural production. It is not an expression used in everyday parlance. We can see it here as a coded reference to the national government. In this way, the report tells us that, while the conglomerate was established at the Huaniu level, Huaniu was acting in accordance with the policies of Shaanxi. Shaanxi in turn was carrying out the policy of the national government.

Another interesting choice of words is the addition that the conglomeration has taken place 'on a voluntary basis.' One would presume that, under normal conditions, companies would only undertake such close cooperation if their owners approved the deal. This, of course, invites the question why this phrase needed to be used at all. Applying the methodology of narrative analysis, this seemingly superfluous phrase can be regarded as implying its opposite: coercion. The suspicion is thus raised that objections had been made against the conglomeration, which had to be dealt with through persuasion. And indeed the foreign partners of the joint venture did attach conditions to their consent to the joint venture being made part of the conglomerate. They agreed to go along with it only after the financial independence of the joint venture within Xiangnai Dairy Group had been guaranteed. This took place in October 1997, and the article three months later provided a summary to the partners, indicating to them that the formation of Xiangnai Dairy Group was a wise decision, initiated by the Huaniu government. The

government was entirely within its rights to do so, and was acting in accordance with the policies of the higher administrative levels. In the end, all the parties agreed and, given that Xiangnai Dairy Group 'is already operating,' are obliged give their full co-operation.

#### 1.4 Leaving or staying?

In the course of 1999, Milco began contemplating withdrawal, because Xiangnai-Group had decided on large new investments, including the acquisition of a number of dairy plants in Huaniu, without Milco's agreement. Two articles appeared on the front page of the same magazine as the one translated above, one in the October 1999 issue, the other in February 2000, on the subject of the dairy industry of Huaniu County. Both articles were written by the same author. In October 1999 article, the county was referred to as the 'dairy metropolis of the North.' According to the text, the policy leading to the establishment of Xiangnai-Group was based on a strategic document crafted by the local government in 1993, long before the establishment of the joint venture. The article of February 2000 reported on the food industry policy of the provincial government. According to that article, the province would specifically support four companies, including Xiangnai-Group. No reference was made to foreign involvement, let alone the involvement of Milco. By that time, it seemed as if the name of Milco had been completely erased from the annals of the Chinese dairy industry.

The problems with the financial reporting continued, and Milco decided to start negotiations to sell its share in the joint venture to Xiangnai in 2000. The communication was still performed with Blackwell as the mediator. Xiangnai responded to Milco's proposal to sell out with a very low offer. This made Milco realise how little it knew about the joint venture and its own position in the entire operation. Milco's CEO, partly joking, countered that another option for Milco was to acquire a majority share in the joint venture and so to gain control, and from that position to improve its operation. Xiangnai was, surprisingly, pleased with this 'offer,' and the mood of the negotiation between the parties instantaneously switched, from each preparing to go his own way to Milco preparing to take over control. At the end of 2000 a news item appeared in a major Chinese food news web site reporting on the continuous success of Xiangnai-Group. The joint venture was specifically mentioned as a major member of the conglomerate. The joint venture was apparently making sense again in the Xiangnai-Group space.

Milco's CEO visited Xiangnai in January 2001, and found that a new production line of Xiangnai had been installed in the plant of the joint venture. Moreover, the product list of the joint venture included the products of a number of other members of Xiangnai-Group. Although not clearly stated, it seemed that a number of costs had also been charged to the joint venture. A financial audit executed by a local accounting firm further revealed certain tax irregularities. It appeared that Blackwell had not fulfilled its function as watchdog as efficiently as expected. Many of the problems detected during this visit were thought to be the result of insufficient supervision. After a few months of consideration and internal discussion, Milco decided to continue the China project, but in a less ambitious way, no longer with the aim of taking over the entire Xiangnai-Group. Milco was still contemplating its options during the time of writing (Nov. 2002).

## 2. Looking for symbols of cognitive space

In the first two parts of this case description, I presented two complete articles with a view to clarifying a certain phase in the history of the joint venture. I showed how analysing such narratives is an important tool in understanding organising processes. Having completed the chronological analysis of the case history, I will now turn to another aspect of narrative analysis: looking for texts containing a certain symbol and determining how actors and organisations make sense of the selected symbol in terms of cognitive space. Such an exercise can facilitate insight into the meaning of the symbol in various social-cognitive contexts.

The symbol I have chosen is the name of the joint venture. I stated above that the name of Milco (which was part of the name of the joint venture) seemed to have been completely erased from the annals of the Chinese dairy industry. In Peverelli (2000) I used another metaphor, referring to the joint venture as having been 'swept under the carpet.' It would be worth investigating if this has actually happened. I have therefore searched for texts that contain the name of the joint venture dating after the formation of Xiangnai Dairy Group. In Peverelli (2000, 90-96) I analysed stories regarding a particular pharmaceutical company published during a period of 11 years (1988 - 1999) and found that the company had quite different identities on the municipal, provincial and national level. It would be interesting to see if we can establish the same for the joint venture. I did indeed find the name of the joint venture in three different contexts:

### *1: Xiangnai-Group*

The various narratives produced by Xiangnai-Group (brochures, web site, etc.) use the name of the joint venture when introducing the history of the company. The foreign investment is still presented as an extra asset contributing to the high technological level of the Xiangnai-Group. One particular instance is an article in a political magazine published by the People's Daily. The August 1998 issue carries an article written by the CEO of Xiangnai, in which he states that the main objective of signing the joint venture agreement with Milco was not to obtain hard currency, but to get access to advanced technology. This narrative is cognate to the story of the article I analysed above in that the joint venture is depicted as a symbol of advanced technology.

The name of the joint venture is also still used on the packaging of a number of products of the Group. For example, its UHT milk, still a rather modern product in China, is packed in attractive tetrapacks, indicating Xiangnai Milco Dairy Co., Ltd. as the manufacturer. The foreign aspect of the company is, again, a symbol of advanced technology. It has the potential to inspire confidence in the consumer.

### *2: China Dairy Association (CDA)*

This sector association is a daughter organisation of the China Food Industry Association, operating within the Light Industry Space. In terms of administrative levels, it is a national space. The joint venture is mentioned in the list of members of CDA, while Xiangnai or Xiangnai-Group are not. Membership of such sector associations is not obligatory and only a limited number of dairy companies deem it worth paying the annual

membership fee. The joint venture was apparently made a member of CDA to represent Xiangnai and, after the formation of Xiangnai Dairy Group, to represent the entire group. The occurrence of the name of the joint venture can be regarded as linked to Xiangnai (-Group) in the sense that it must have been the decision of Xiangnai to join the Association under the name of the joint venture. The name of the joint venture is used here as a symbol for foreign investment, which confers a higher status on the Chinese partner(s), and all parties involved.

### *3: Shancheng*

A number of texts produced within the cognitive space of Shancheng, the municipality of which Huaniyu is a county, contain the name of the joint venture. The joint venture is one of a very small number of foreign investment projects within Shancheng's territory, and the language used to describe these projects leaves no doubt that the authorities of Shancheng are proud of being able to attract such foreign investment. Foreign investment seems to make sense at this level, rather than at higher or lower levels. Even on the official web site of Shaanxi, the joint venture is mentioned in the section on Shancheng, while there is no list of 'foreign funded enterprises of Shaanxi.'

### *4: State Quality Inspection Bureau*

In mid August 2002 the State Quality Inspection Bureau published its annual list of products exempt from quality inspection. The section on dairy products included the UHT milk produced by Xiangnai-Group, with the name of the joint venture given between brackets. One possible explanation for this appearance of the joint venture is that, for this particular list, the actual production unit has to be indicated. This would mean that, if the joint venture were to be dissolved, the Xiangnai brand products included in this list would lose their quality inspection status, at least until the next publication of the list. In the Chinese context, we may presume that Xiangnai(-Group) has played a role in getting some of its products on the list, but that does not affect our conclusion that the joint venture makes sense to Xiangnai in this context.

The impact of being incorporated in this list has been enormous. An Internet search using a Chinese search engine with the Chinese translation of Milco as the key word (November 2002) resulted in 11 new URLs. These were sites reporting the publication of the new list and sites with food industry information. Chinese visitors to those sites will read the word Milco and cognitively connect it with the positive image of a successful (good quality, well connected, etc.) company.

## **3. Analysis & conclusions**

This case is a classic example of the 'other agenda' phenomenon that one hears about so often in connection with Chinese partners (Peverelli, 2000: 2). 'The Chinese were probably not committed to a long term cooperation to begin with and simply needed a foreign investor for the hard currency, the technology and to show off...' I believe that it is impossible to look inside people's minds, and I will therefore refrain from commenting on such views. Instead, I will try to explain how people who get involved with cases like this as researchers, consultants, and so on, can tackle them using the theoretical framework offered here.

I will concentrate on three issues:

- 1) the sense-making of the joint venture in various social-cognitive contexts;
- 2) how to gain insight into the processes of sense-making;
- 3) how this understanding can be used to redefine the steering power of Milco in the joint venture and even in the entire Xiangnai-Group, without acquiring a majority share in the equity.

### 3.1 the joint venture: under and above the carpet

From a historic point of view, the joint venture played a central role in the perception of Xiangnai. The name of the joint venture appeared a number of times in reports on the front page of the most influential publication in the Chinese food industry. Since such reports are virtually always placed by the companies themselves, their publication must have been instigated by the CEO of Xiangnai, either in his capacity as CEO of Xiangnai or of the joint venture. The publication of articles continued after the establishment of Xiangnai-Group, but without mentioning the name of the joint venture. In the pre-conglomeration period narratives, the joint venture was used as a symbol for technological improvement. This was still the main theme of the later articles on Xiangnai-Group, but by then the joint venture was no longer being used as its symbol. The focus of communication between Xiangnai and Milco had changed from improving technology to increasing the level of investment. In other words, the foreign investor changed from being a provider of technology to being a (potential) source of capital.

One rule of narrative analysis is that when actors repeatedly mention a certain idea, or do so in a context in which the statement seems obvious, they usually mean the opposite (Boje, 2001: 21; also see Van Dongen, 1991). A child that is eager to make its parents believe that it did not take the last cookie from the jar, will repeat the phrase, 'it wasn't me,' so often, that suspicions will be aroused. I have pointed out that the statement that the various companies joined the conglomerate voluntarily can be regarded as a clue that some coercion was needed to persuade some of the parties to join in. In the 1998 article, the CEO of Xiangnai specifically tells his audience that the joint venture was not about foreign investment, but about obtaining foreign advanced technology. This statement was made while Xiangnai was beginning to press it upon Milco that the time had come to increase its investment, indicating that investment had become the main issue.

As long as technology was the main purpose of the cooperation, Milco was perceived as basically complying with the expectations of Xiangnai, and the publications featuring the joint venture contained the names both of Xiangnai and Milco. As soon as the focus of Xiangnai's sense-making of the joint venture changed from obtaining foreign technology to obtaining foreign investment, and Milco reacted reluctantly, Milco's importance decreased. The joint venture, Milco's common space with Xiangnai, also got pushed from the centre to the periphery. Xiangnai-Group was formed, with only Xiangnai in the company name. Xiangnai-Group started to represent the joint venture in virtually all news items. After Xiangnai and Milco started discussing Milco's take-over of the entire Xiangnai-Group, although publications still featured Xiangnai-Group as the core theme, the joint venture was mentioned once again to emphasise the inclusion of foreign investment.

### 3.2 Power, Control and Steering

In the remainder of this chapter, we will investigate how understanding the sense-making of the joint venture can be used to rethink Milco's case in terms of its power, actual and potential, in the venture. Although it has not been explicitly stated, Milco seems to emerge from the case history as the party with limited power, and hence limited control over the fate of the joint venture. It would be worth reinvestigating the notions of power and control in terms of my theoretical model.

In mainstream management terminology, Milco only holds 25% of the equity of the joint venture, with Xiangnai holding the remaining 75%. This gives Xiangnai an overwhelming majority when it comes to the management decisions that have to be made regarding the joint venture. A company like Milco has two instruments to maximise its influence in the operation of the joint venture:

- *the joint venture agreement*: during the negotiation phase Milco can demand that certain major strategic decisions in the joint venture can only be made with the full agreement of all the shareholders. As long as the counterparty accepts such a provision, and confirms this by signing the agreement, Milco could later invoke the agreement in any cases in which the Chinese side tried to force its will on major issues;
- *sense-making*: make an inventory of the contexts in which the joint venture makes sense (as I have done above) and try to create synergy by linking as many of those contexts as possible.

The first instrument, the legal one, may seem the strongest of the two, again from a mainstream management point of view. However, it has proven next to impossible to use in the Chinese context so far. Most joint venture agreements between Chinese and Western parties do contain such clauses, but Chinese partners have shown such a strong propensity to dominate decision making, even when they are holding minority shares, that litigation between joint venture partners would become a daily event in the courts of the major Chinese cities. Needless to say, contesting such such in court would not be conducive to improved relations between the partners.

I do not advise against addressing this issue during negotiations. However, doing so should not be regarded as a means to exercise power during the implementation of the agreement. It should be seen as a way to create a common context, or in our terminology, a common space, in which the joint venture can be constituted. Within the theoretical framework proposed here, the entire negotiation phase of this type of cooperative projects should be re-thought as a space constructing activity. The negotiating parties are constructing common space in which they each make sense of things relevant to the subject of the negotiation in a similar fashion. That is to say, they agree on a basic set of 'ways to do things,' etc.

However, after the negotiations have ended successfully and the cooperation agreement has been signed, one should be wary of perceiving the negotiated space as everlastingly fixed. Once the partners start implementing what has been negotiated, the nature of their interaction changes from negotiating a joint venture to implementing the joint venture, in other words, from negotiating a space to interacting within that space. This is a new game with rules of its own. Westerners tend to reify an agreement as something sacred that

should be followed to the letter. Chinese people tend to interpret agreements differently in different social-cognitive contexts. From a practical point of view, Western partners of Sino-foreign joint ventures would do well not to invoke the agreement too frequently, to avoid endless debates.

In Peverelli (2000: 52-58) the first attempt was made to redefine culture, as the way actors cope with multiple inclusions. Observing the behaviour of Western (North-West European and North-American) and Chinese partners in Sino-foreign joint ventures, he found that the majority of problems are caused by their different strategies of coping with multiplicity. Westerners are aware of their multiple inclusions, but tend to perceive one inclusion as 'main, principal, basic,' etc., while the Chinese seem to be able to surf freely between inclusions. For Westerners, moving from one inclusion to another is a principal decision, requiring considerable cognitive activity. For the Chinese, it is a way of life. This is probably the main reason for the persistent complaints from Chinese partners that their Western counterparts are so 'rigid,' and for the equally persistent complaints from Western parties that the Chinese are 'disloyal' and do not respect agreements (also see A. van Dongen (1997)). This way of defining culture has similarities with Trompenaars' universal - particular dimension. However, while Trompenaars' dimension is merely based on values, my definition of culture as the way to cope with multiplicity is based on a comprehensive theory of organising.

I believe that the second instrument to exercise power, sensemaking, offers the widest range of possibilities to gain influence on the operation. Instead of basing that influence on rights derived from the agreement, such influence is achieved through steering. Steering is the process of influencing the behaviour of actors through intervention in the sensemaking processes. I prefer this term to 'control.' While control denotes making others do what you want them to do, steering is much more indirect and diverse. Moreover, steering is much more interactive. The person who steers is interacting with those who are to be steered. Obviously, control is also interactive in the sense that even the strictest order will only be obeyed if those who are controlled acknowledge the power of the person giving that order. However, in the case of steering, those who are steered are not necessarily aware of it, and even when are, they will not experience the influence on their behaviour as a result of the power of the other over them: they will change their behaviour because 'it makes sense.'

If one insists on maintaining the notion of power, we can redefine power as 'being able to influence the behaviour of others by making sense.' A can make B do something, if that activity makes sense to B. This definition retains the traditional definition of power in terms of authority or force. A manager can request a subordinate to do something and that subordinate may comply because (s)he perceives the request as falling within the scope of the manager's authority in the context of the company. However, the manager may also comply with a request from the subordinate, if the request makes sense in a certain social-cognitive context. In other words, sense-making is a form of power as well. I will set out two possibilities for increasing the influence of Milco on the management of the joint venture (and even on that of Xiangnai-Group) through sense-making processes.

*Make the joint venture more prominent within Xiangnai-Group*

The joint venture, being a foreign funded enterprise, adds a certain quality status to Xiangnai-Group. It is generally believed in China that foreign products are of higher quality than their Chinese equivalents, and foreign funded enterprises use the foreign aspect of their products as a major marketing argument. Milco could build on that and use the joint venture for manufacturing products that are regarded as novel, or high tech, in China. The joint venture's current main product is milk powder. However, the other companies within Xiangnai-Group also produce milk powders, and it is hard to define how the joint venture adds value to such a generic product. UHT milk is a better product for the joint venture, but that too is becoming a generic product in China.

A more strategic product would be cheese. Cheese production is still rudimentary in China, but it is expected that the demand for cheese will increase in the coming years. Although cheese is almost a staple food in Milco's home market, it is a novel food in China, and can be marketed as such. Moreover, the fame of Milco's home country as a major cheese region would be a valuable marketing argument. The offal of cheese production, whey, is probably an even more valuable product in China. Demineralised whey powder is a major ingredient for the production of infant food, and China needs to import large quantities of whey powder each year to feed the millions of newly born babies.

The joint venture can start producing and marketing cheese and whey products. Moreover, the joint venture should use this to profile itself as an important innovative company in the Chinese dairy industry. Within those promotional activities the membership of the joint venture of Xiangnai-Group should be mentioned as well, so that Xiangnai(-Group) can share in the honour. In many ways, the increasing occurrence of the joint venture's name on the Internet, as described above, already has a similar effect. This will dramatically enhance the joint venture's position, and thereby its influence, in Xiangnai-Group.

*Initiate direct contacts on the Shancheng level*

My search for contexts in which the joint venture made sense revealed that the joint venture was mentioned in a number of texts produced by Shancheng level organisations. The CEO of Milco should visit Shancheng during his next trip to China and initiate direct contacts with officials there. Such a visit could be announced as a long overdue getting-to-know one another meeting. Again, Xiangnai-Group should be used to arrange the visit, and the CEO of Xiangnai should accompany him. Xiangnai-Group can then share in the honour that the parties in Shancheng would derive from the visit by a foreign investor. Moreover, Milco would then gain access to Xiangnai's inclusions in the Shancheng context. Such a visit would increase the inclusions of the joint venture and increase its status within Xiangnai-Group.

In the course of such activities, Milco never needs to point out the purposes of the initiatives. People on the Chinese side will experience them as obvious, as 'what we would do.' One possible scenario would be that the CEO of Xiangnai would try to dissuade the visit to Shancheng. This should be regarded as an indication that he does not



intend to let Milco into his inclusions on that level. In that case the CEO of Milco should insist, and advise his counterpart that, in the event that it is inconvenient for Xiangnai to arrange the appointment, he will arrange it himself. Doing this will not harm the relationship between the two partners. Rather, Xiangnai would realise that Milco is indeed a worthy partner; that is to say, one with whom it needs to stay on good terms.

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