

Socio-political processes in international management in post-socialist contexts: knowledge, learning and transnational institution building

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Abstract

This paper contributes to the recent debates and emerging concepts in the international business literature by applying a social-institutionalist perspective that focuses on the processes of institution building in ventures between Western multinational corporations and post-socialist enterprises. It is argued that the knowledge and learning processes within these transnational sites are constitutive of the actual management and organizational practices that emerge in these social microcosms of transformation. In transition and other emerging economic contexts, international ventures are typically based on asymmetrical relationships, in which the balance of power is structurally weighted in favor of the MNC. Notwithstanding this dominance structure, constructing new practices within the transnational social space is a socio-political process involving power-holders such as senior managers representing the Western MNC and the local enterprise. The paper argues that the strategic orientations of these key power holders are critical variables in explaining the diversity of concrete patterns of institution building on transnational sites.

Keywords: Socio-political processes; Management learning; Transnational institution building; Multinational corporations; Transition and emerging economies

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1. Introduction

The aim of this exploratory paper is to develop a conceptual framework that improves our understanding how ventures between indigenous post-socialist enterprises (especially former state-owned enterprises, or SOEs) and Western multinational companies (MNCs) are institutionally constructed within the wider context of the post-socialist transformation. It focuses specifically on processes of knowledge acquisition and learning within such international ventures (IVs), which include both joint-venture and headquarters-subsidiary forms of organization in which Western MNCs develop international operations. The arguments build on concepts derived from recent developments in the international business literature and seek to contribute back to this field new ways of thinking about the socio-political dimensions of cross-cultural management.

Theoretically, we build our arguments from an institutionalist conceptualization of the post-socialism as *socio-economic transformation* (Child and Czeglédy, 1996; Clark and Soulsby, 1999; McDermott, 1997; also Stark, 1992, 1997; Whitley, 1995; Whitley and Czaban, 1998), which recognizes that post-socialism has proven to be more complex, convoluted and diverse than was first thought by the transition economists. Far from replicating an imported ‘design’ of market capitalism, the institutionalization of new microeconomic practices of management and business has been uneven between and within post-socialist societies, across and within industrial sectors. In this paper, we argue that important features of the post-socialist transformation have evolved through a process of *institution building*, socially constructed from the bottom up by economic actors working within structures of international business.

The paper draws on recent conceptual developments around the idea of ‘transnational social space’ (Morgan et al., 2001; Pries, 2001) to examine microeconomic institution building in IVs. Institution building takes place as transnational social spaces are ‘filled’ with new structures and practices, which in turn reflect processes of

knowledge acquisition and learning that change the nature of existing management and organization. As this process is repeated and new practices legitimized within and across industrial sectors, they take on an institutionalized form beyond the original site.

Detailed studies of transnational sites in post-socialist countries and elsewhere have shown that knowledge processes are more complex and less linear than the one-way transfer and consensual learning implied by low context, transition-economic perspectives (Child, 2000a; Clark and Geppert, 2002). Indeed, there are indications that international MNC operations may be more typically characterized by degrees of conflict and disagreement between Western knowledge (and its agents) and local practices (and their practitioners), with important implications for the process and outcomes of institution building at both micro and macro levels. However, the socio-political underpinnings of these processes have not been systematically analyzed and are rarely discussed.

Transnational institution building in post-socialist settings takes place within *asymmetrical relationships*, in which the balance of power is structurally weighted in favor of the MNC. Nonetheless, the central thrust of our argument is that the transnational social space becomes institutionalized through political processes that involve significant power-holders – notably those representing the Western ‘source’ MNC and the local ‘recipient’ enterprise. Potential political contestation makes institution building a genuinely open empirical question, not to be foreclosed by structuralist assumptions and ‘generalized predictive models’ (Child, 2002, p. 782). In other words, the differential expectations and priorities of the power-holders – influenced by their knowledge strategies, contributions and needs – lead to different processes and outcomes in the structuring and management of transnational social spaces.

The paper unfolds in the following way. First, we elaborate the argument for seeing the post-socialist transformation as an emergent process of institution building, which can be theorized as a social and political construction involving human agents at the micro-level of the international venture. Then, we examine the concept of a transnational social space, which provides the key locus within which knowledge and learning processes take place. Third, the paper examines a defining characteristic of

transnational alliances in transforming countries, the systematic asymmetry of relationships, which leads to a section exploring the variability of partners' strategic and management orientations towards IVs. These conceptual building blocks are brought together in the fifth section to consider three illustrative, ideal-typical cases of institution building in transnational social spaces, before drawing some conclusions and suggesting directions for further research.

2. Microeconomic transformation and the post-socialist context

Inspired by neo-classical economics, the study of post-socialism as *economic transition* has been an influential approach with strong policy implications. At its logical extreme, the transition approach conceptualizes post-socialist change as a designable shift from one stylized system of command economy to another of free market capitalism, taking an idealized form of simultaneous and frictionless demolition of the first system and construction of market economic institutions. Within this transition model, knowledge transfer and learning tend to be portrayed (often implicitly) as mimetic processes. Knowledge movements are a one-way transmission from Western models to post-socialism, while learning takes place passively and without reflection (Child and Czeglédy, 1996; Clark and Geppert, 2002).

It is generally agreed that foreign direct investment (FDI) is one of the most influential mechanisms for effecting microeconomic institution building, because of its ability to permeate Western knowledge throughout transforming societies (Crone and Roper, 2001). This theoretical view posits a number of structural links: the infusion of foreign capital leads to the transfer of critical Western knowledge to post-socialist partners, who practise the know-how and, through their supplier and client networks, cascade their learning locally. Child (2000a) refers to such structural views of knowledge transfer and management learning as 'low context', because they tend to ignore the relevance of local factors to emerging business practices by emphasizing forms of economic, technological and/or psychological universalism. Criticized as mechanistic, shallow and de-contextualized (Djelic and Quack, 2002; Griffith et al., 2001), this concept of 'transfer' tends to ignore empirical counter-evidence that, for example, foreign ownership does not always effect the necessary changes in management and organization (Pollert, 1999), and may even bow in significant ways to local practices (Whitley and Czaban, 1998).

The alternative view starts from the observation that changes in institutional systems are always conditioned – mediated, restrained or opposed – by the path dependencies, because historical legacies that are built into local custom and practice are an important friction on transformation (Stark, 1992). In practice, the path adopted by any particular society depends on the responses of social actors in micro-level social arenas such as work organizations. Societal transformation is therefore an aggregated process, socially constructed by motivated human agents operating in all spheres of society. From this bottom-up perspective, the research problem is to discover and explain the variety of patterns in the many micro-social processes of institution building, rather than proposing some generic or universal formula.

Societal transformation can be understood as a socially constructed process, which involves the acquisition of new or different ways of thinking and behaving, leading to changes in social practice that, when repeated and habitualized, are the bases of new institutionalized practices. Faced with the problems and conundrums of operating in a changing business context, post-socialist managers have to develop what Whittington (2002) calls ‘contextualised *savoir-faire*’. Like a *bricoleur*, they have to put together new sets of practices (micro-institutions) from the social, cultural and economic resources available – that is, some sense of transformational order is constructed from historical and contemporary bits and pieces (e.g. Djelic and Quack, 2002; Grabher and Stark, 1997; Weik, 2001). These institutional building blocks include both domestic and foreign knowledge, an issue largely discussed as ‘hybridization’ in the international management literature (Abo, 1994; Boyer et al., 1998) but rarely conceptualized in more actor-centered terms.

Such ‘high context’ approaches (Child, 2000a) examine the processes of cross border knowledge transfer and learning in their cultural and contextualized complexity, for example, through case study methods. Instead of the smoothed-out linear copying of Western institutions, high context research has tended to uncover contradictions, conflicts and resistance within relationships between foreign and local partners, reinforcing the lessons of international business research – that cross border knowledge transfer is characterized by ‘stickiness’ (Szulanski, 1996), politics (Yan and Gray, 1994), instabilities (Inkpen and Beamish, 1997; Shenkar and Yan, 2002) and ‘absorptive’ incapacities (Cohen and Levinthal, 1990).

3. Structuring the transnational social space

The microeconomic institution building that takes place within IVs is therefore the consequence of the structural and political relationships between the partners and other significant power holders. The concept of a transnational social space (Clark and Geppert, 2002; Morgan, 2001) describes the organizational site created by strategic partners, whose combined socio-political acts of imposition, resistance and negotiation serve to structure the space through the emergence of institutionalized practices.

The general characteristics of a transnational social space include its cultural and institutional contexts; the initial ‘negotiated bargain’ that establishes the formal rules of the game (Inkpen and Beamish, 1997); the resources contributed to the venture, including different types of knowledge (Bhagat et al., 2002; Yan and Gray, 1994); the motives, values and orientations of the partners (Koza and Lewin, 1998), their secondees (Pearce, 2001) and independent managers (Shenkar and Yan, 2002); and the socio-political processes that constitute the venture on a day-to-day basis (Inkpen and Beamish, 1997; Shenkar and Yan, 2002).

In principle, the institutions that are built in the transnational social space result from the balance of three knowledge processes. First, *direct importation* introduces new Western knowledge and practices from the outside, to be inscribed on-site relatively intact. Second, *recombination* reproduces knowledge and resources inherited from local history (Stark, 1997) and presents in a new pattern of social *bricolage*. Third, knowledge can be *indirect assimilated* as new external ideas are filtered through post-socialist values and integrated into the local knowledge base. This last process may reflect degrees of conflict between different social logics (Djelic and Quack, 2002; Pries, 2001). Since the melding of these knowledge flows into evolving microeconomic institutions is necessarily mediated through human agency, their precise institutional outcomes are unknowable from a generalizing structural theory. Instead, we need to develop a more context-sensitive and actor-centered theoretical framework. It is to this task that we now turn.

4. Structural asymmetries in Western/post-socialist ventures

Some degree of *relationship asymmetry* is built into any strategic alliance (Hamel, 1991; Inkpen and Beamish, 1997; Mowery et al., 1996; Yan and Gray, 1994), but structural asymmetries are an even more significant feature of international ventures involving Western MNCs in transforming economies because of the influence of *contextual asymmetries*.

Relationship asymmetry between partners arises because of inequalities that are intrinsic to the initial contract or bargain: the contracts, rules and arrangements that define the nature of the venture; equity shares; the balance of senior management and/or the rights of the partners in strategic control and decisions (Inkpen and Beamish, 1997). The initial bargain, with its formal characteristics and informal understandings, establishes the structural distribution of power, within which takes place the subsequent shaping of the transnational social space. In practice, any strategic alliance bargain is likely to have asymmetrical features, but there is also likely to be some kind of balancing of partners' contributions and objectives – for example, one party may contribute more finance while another more know-how.

Inequalities in economic power, resulting from differential equity stakes, are typical of IVs in post-socialist economies, because of the weak capital position of local enterprises and of the state. Research indicates a negative relationship between equity imbalance – and related control asymmetries – and the performance or longevity of ventures (Salk and Shenkar, 2001). In their study of Western-Hungarian IJVs, Danis and Parkhe (2002) found an incipient instability that resulted from the local partner's high capital dependence on the Western MNC.

Typically there are also asymmetries in knowledge and other non-capital contributions by the partners. Thus, foreign partners tend to provide technology, general and specialized management expertise and global support, while local firms offer market/client information, local labor and distribution system (Inkpen and Beamish, 1997; Yan and Gray, 1994). It has been argued that foreign knowledge tends to be strongly embedded or 'system-dependent' (Bhagat et al., 2002; Eisenhardt and Santos, 2002), while local knowledge tends to be more easily codifiable or of limited use (Danis and Parkhe, 2002; Inkpen and Beamish, 1997). From the start, therefore, the more tacit and complex Western contributions are far more difficult to

‘translate’ – to ‘dis-embed’, move around and learn (to re-embed and to institutionalize) – than is local knowledge (see Dobosz and Jankowicz, 2002).

In a symmetrical relationship, partners enter into alliances with knowledge needs that are different but probably balanced and equitable. In Western/post-socialist ventures, however, knowledge needs tend to be highly asymmetrical, because of systematic knowledge gaps that are typical of former SOEs (Griffith et al., 2001; Si and Bruton, 1999). While local partners need Western management expertise in order to survive, foreign partners see local knowledge – including cultural and language – as relatively insignificant in strategic terms, creating a balance of dependency of the local on the foreign partner.

These inequalities become reproduced in asymmetries in management discourse and reputation. In the global management sphere, post-socialist managers have weak claims to legitimacy and one of their aims in international collaboration is to seek the legitimacy of full ‘membership’ of the Western management community of practice (Clark and Soulsby, 1999; Merckens et al., 2001). While they remain ‘peripheral participants’ (Brown and Duguid, 1991), they have a strong incentive to ‘learn’ enough to become accepted as peers. This requires gaining knowledge about how to speak ‘modern management’, a problem not faced by Western managers.

These and other asymmetries are structured into the transnational social space as formal and informal elements of the relationship between local and Western management. They serve to create structures of dependency and domination that systematically predispose the relationship in the Western partner’s favor (Hardy and Clegg, 1999). However, they are more ‘normal’ in alliances between Western and post-socialist companies because they exist within a ‘formative context’ (Child, 2002) that gives such ventures another structural layer of asymmetry. The political and economic frailties of former communist countries create a strong dependence on advanced Western countries for aid and loans in order to restructure. Moreover, the image has prevailed that, in the wake of the ‘victory’ of capitalism, post-communist managers possessed ‘worthless’ knowledge (Geppert and Merckens, 1999). It was such an image – and the sense that they were ‘begging’ and desperate – that led many enterprises into a headlong pursuit of foreign capital. These contextual asymmetries provided a significant backcloth against which multinationals negotiated their initial

bargains with SOEs. On the other hand, whenever the state has been an active economic and institutional player, it has been able an important counterweight in negotiating relationships between local plants and MNCs (Dörr and Kessel, 2002; also Child, 2002; Shenkar and Yan, 2002).

Given this structure of domination, it is easier for the foreign partner to mine local knowledge, protect its own knowledge and, through a politics of increasing asymmetry, decrease its dependence on the local partner. Thus Hamel (1991) proposes that strategic alliances are competitions for competence, in which each partner seeks to 'outlearn' the other in order to gain strategic advantage. Inkpen and Beamish (1997) develop this idea further, arguing that the politics of strategic alliance lead to a precarious balance and an incipient state of instability within the transnational space. This political process involves maneuvers by each party to reduce its dependency on the other by acquiring the latter's unique knowledge, while protecting its own knowledge by making it difficult to acquire.

Yet these arguments about inter-partner politics are predicated on a particular view of international ventures, which presumes a certain set of MNC values and priorities and a certain set of local management responses. For example, privileging an Anglo-American type of strategic instrumentalism downplays the importance of trust and long-term relations in IVs (contrast Hagen and Choe, 1998). In fact, even ignoring national cultural variations, foreign partners can make choices about knowledge exchange, in extreme cases opting to either maintain exclusive control or share even the tacit foundations of management knowledge. Similarly, local partners can choose to reproduce local practices and minimize 'absorptive capacity' (Cohen and Levinthal, 1990) or cede local influence to Western practices (Wang et al., 2001; Yan and Child, 2002).

In summary, relationship and contextual asymmetries within a Western-post-socialist IV shape a framework that privileges MNC's ability to structure the transnational social space according to its managers' strategic priorities. However, in order to understand the empirical diversity of institution building on transnational sites, we need to know more about the goals and interests of both foreign and local partners and the human agents who represent them.

5. Partner orientations and responses to structural asymmetry

The characteristics of the two partners and the relationship between them affect their capacity and willingness to ‘teach’ and ‘learn’ (Wang et al., 2001) within the transnational site. Given the structural asymmetries, Western managers’ strategic values and priorities (i.e. their orientations) and subsequent actions are especially significant in setting the organizational climate in which knowledge can be transferred, absorbed, rejected and so on. It is nonetheless an error to ignore the orientations and actions of post-socialist managers (Dörr and Kessel, 2002). To explore the theoretical possibilities of these ideas, we conceptualize local and foreign managers’ orientations in a simplified way, neglecting the actual content of the values and concentrating on the postures that powerful actors adopt toward the venture.

5.1. Local orientations to foreign collaboration

Faced with the need for deep restructuring in order to adapt to changing market-economic pressures, post-socialist enterprise management has adopted one or more of several strategies. Some, for example, have insisted in ‘going it alone’ or with existing domestic partners, demonstrating high levels of resistance to foreign ideas and control – the international business literature has sometimes referred to a ‘not invented here’ syndrome as one indicator of recipient reluctance (Szulanski, 1996). Some post-socialist research has found assertions of enterprise autonomy, sometimes expressed as national pride in the face of the ‘arrogance’ of Western knowledge (Clark and Soulsby, 1999; Markóczy, 1993; Simon and Davies, 1996). By rejecting the loss of domestic control embodied in FDI proposals, such enterprises effectively proclaim their own cultural resources and ability to survive through recombining existing knowledge.

Another response has been to maintain strategic independence but, in recognition of the need to acquire Western concepts and techniques, to import foreign ideas through recruitment, training or educational policies (Hollinshead and Michailova, 2001; Soulsby and Clark, 1996). The spread of MBA courses and international training courses in Central Europe, for example, owes much to local managers’ desire to learn foreign practice, while retaining indigenous control and independence. Many post-socialist enterprises have, however, entered into alliances with foreign firms as the preferred way of updating technology, acquiring capital or gaining access to existing global networks or supply chains. Acquisition of knowledge is often cited as a major

reason for smaller firms entering strategic alliances with more powerful Western MNCs (Griffith et al., 2001; Si and Bruton, 1999). Geppert and Merkens (1999) found strong local enthusiasm for acquiring new ideas and practices from the West. On the other hand, given the generally penurious state of post-socialist enterprises and a sense of being forced into foreign alliances despite preferences for autonomy, it is not possible to take enthusiasm, passive acceptance or even indifference for granted (Uhlenbruck and de Castro, 2000).

In terms of management and organizational learning and resultant institution building, it is crucial to know the degree of voluntarism with which local managers enter into a venture. National and professional identity can have significant effects on patterns of willingness and acceptance shown by Czech (Clark and Soulsby, 1999), Bulgarian (Hollinshead and Michailova, 2001) and Hungarian managers (Simon and Davies, 1996; Markóczy, 1993) in their relationships with Western managers. Senior local managers can sign a contract with a Western partner because they *have to*, not because they want to - this can have serious ramifications for the acquisition of new practices and the development of new institutions.

In short, there is evidence that the orientations of post-socialist managers vary quite significantly, between positive and negative attitudes to Western knowledge, and in the willingness to learn ideas and practices that are 'imposed' from outside. Knowledge can be adopted actively through consensual engagement or passively through a sense of expedient necessity. Similarly, local managers can use their power to reject or undermine knowledge through passive or active resistance. Non-compliance can even take an unwitting apolitical form, as when cultural or linguistic barriers impede or distort levels of communication between Western and local managers (Simon and Davies, 1996; Spicer, 1997; Villinger, 1996). This discussion brings us to our first proposition.

Proposition 1: As a result of their diverse historical and contemporaneous experiences of business, local partners in a Western-post-socialist IV vary in their degrees of involvement (activity or passivity) in and support (positive or negative) for transnational institution building.

5.2. Western orientations to local management

The ways in which senior Western managers approach issues of knowledge transfer and institution building reflect the strategic orientations, through which they attribute value and meaning to foreign ventures. The logics of action implied by strategic orientations vary significantly in content according to the country of origin (Noorderhaven and Harzing, 2003). Thus, far from being a general theory of international business behaviour, the politics of instability elucidated so eloquently by Inkpen and Beamish (1997) may enact strategic preferences typically associated with Anglo-American MNCs. On the other hand, cultural concepts of trust found elsewhere, for example in some Asian communities, might make this political logic quite untenable (Sullivan et al., 1981). While noting this potentially wide spectrum of Western strategic orientations, our discussion is limited to two ideal typical forms drawn from the international business literature: ethnocentrism-exploitation and polycentrism-exploration.

Following Perlmutter (1969), an *ethnocentric* strategic orientation emphasizes the Western managers' preferences for the norms and standards that prevail in their own country, which in turn encourages one-way and top-down processes of transferring knowledge from the home to the host country. Orders, commands and advice from home country managers (Perlmutter, 1969) therefore dominate the communication process between Western head office and its foreign operations. Implicitly, ethnocentric Western managers presume the superiority of their own ideas and priorities and act to impose their knowledge and learning practices on local managers and employees. Such a strategic approach is more or less directly focused on 'outflanking' local resistance (Clegg, 1994).

The cultural superiority implicit in an MNC's ethnocentrism is logically related to what Koza and Lewin (1998), following March (1991), refer to as an *exploitative* approach to organizational learning. Thus, where a Western partner adopts an exploitation strategy, such as cost leadership, short-term access to local markets and cheap labour and other resources (Porter, 1985), it would have little interest in the knowledge and specific competences of post-socialist partners. Overall, the ethnocentric-exploitation strategic orientation leads to the imposition of minimally necessary external and explicit knowledge, while keeping secure the tacit or system-dependent foundations of such knowledge. This orientation may be echoed in and a reflection of the low level of inter-partner trust (Johnson et al., 1996) and the type of

venture created, such as a highly rationalized operation servicing global corporation needs and creating little local value (Crone and Roper, 2002).

We can contrast ethnocentrism-exploitation as a type with that of polycentrism-exploration. In this context, we use ‘polycentric’ generically as a polar opposite of ethnocentric, while recognizing that this neglects the finesse of Perlmutter’s (1969) distinction between polycentrism and geocentrism. A *polycentric* orientation places greater emphasis on the legitimacy and expression of host country values, with local managers having a greater say in alliance affairs and local identity given precedence over head office culture. Greater awareness of local values, experiences and practices increases the potential for longer-term trust and symmetrical cooperation between Western and local partners. In turn, it is conducive to the realisation of strategies that go beyond straightforward cost leadership to focus on a differentiation (Porter, 1985). Polycentrism encourages the incorporation of local knowledge in decision-making and the enhancement of two-way learning. This orientation goes hand in hand with a more participatory approach to institution building (Bachrach and Botwinick, 1992).

The cultural sensitivity to and political acknowledgement of local management has a logical association with what March (1991) calls *exploratory* learning, a process through which new opportunities – rather than extension of existing capabilities – can be discovered. Other things being equal, a polycentric-exploratory orientation is more likely to promote a climate in which knowledge can be freely exchanged and mutual understandings negotiated between Western and local partners (Koza and Lewin, 1998). In sharing deeper tacit knowledge from both Western and local contexts, the transnational site is likely to be infused with genuinely new practices (Child, 2000b).

These observations suggest the following two propositions:

Proposition 2a: Other things being equal, in a Western- post-socialist IV where the Western partner holds an ethnocentric-exploitative strategic orientation, management will seek one way transfer of explicit Western knowledge, encourage minimum local partner involvement and learning, and show less commitment to the transnational venture.

Proposition 2b: Other things being equal, in a Western post-socialist IV where the Western partner holds a polycentric-explorative strategic orientation, management will seek to exchange deep tacit knowledge, encourage real local partner involvement and learning and show greater commitment to the transnational alliance.

5.3. Combining Western and local orientations

We argue that, despite the structure of domination on the asymmetric transnational site, knowledge, learning and institution building processes depend on the interaction between MNC and local agents. Table 1 provides an overview of the eight combinations that arise from the analysis above, and some combinations suggest more congruence than others.

 Table 1 about here

For example, it would appear on a priori grounds that levels of acceptance are more likely to be associated with exploratory (cases 1 and 2) than exploitative strategic values (cases 5 and 6). Similarly, one might expect an exploitative posture to be met with some level of hostility or opposition (cases 7 and 8). In fact, the incidence of these combinations is an empirical question, for reasons we have already introduced e.g. some post-socialist managers have welcomed any kind of foreign intervention with open arms, because it satisfies some value other than sustaining domestic management control (e.g. protecting employment). We now examine the implications of some of these combinations.

6. Knowledge, learning and institution building in asymmetric transnational sites

Underlying the notion of a transnational social space is the expectation that the nature of organization and management in an IV demands the resolution of objectives and interests that are often grounded in quite diverse logics of action, opening up questions about ‘the dynamism, conflict and change that occurs inside multinationals’ (Morgan, 2001, p. 11). Even within a transnational space characterized by systematic asymmetries, social actors are at the center of the knowledge and learning processes. Within the internal socio-political processes of the IV, the motivated pursuit of interests and strategies effectively establishes the degree to which the emergent

venture mimics the dominant partner – reproducing structural asymmetries – resists it or takes on new combinations of organizational elements. The logic of this argument is presented in Figure 1.

Figure 1 about here

We examine this general theoretical framework by following through the implications of three of the eight ideal typical combinations (see Table 1). These cases have been selected to illustrate important features of the general framework outlined above, and the main characteristics of the remaining cases are outlined in Table 2. For example, cases 1 and 6, in different ways, demonstrate the importance of understanding different degrees of local management commitment in explaining knowledge and learning processes; on the other hand, cases 1 and 8 provide conceptually polar scenarios that theoretical probing of the framework. In outlining these scenarios, it is important to bear in mind the many variables that are held constant in order to construct theoretical propositions e.g. country of origin and post-socialist country of destination differences, different types of international venture (e.g. IJV or MNC-subsidiary relationship) or type of industry.

Table 2 about here

6.1. Case 1: Assimilative transnational order

The first case concerns a polycentric-exploratory Western orientation with active local acceptance. The Western partner seeks to develop new ideas, products or markets by actively putting its knowledge resources together with those of the local partner. This is an approach that sets aside structural asymmetries in favor of negotiating a consensual pathway and a long-term relationship. Although local managers might adopt a positive and willing posture independently of this Western approach, the latter is certainly likely to reinforce high levels of acceptance (Child, 2002).

This scenario has strong implications for knowledge and learning within the transnational site. Although all three knowledge processes can be found within this scenario, it is especially oriented toward assimilative processes. Since the case generates trust through two-way commitment and collaborative relationships, both parties are willing to share tacit knowledge and hence encourage mutual, deep learning in the transnational site. As such, the transnational site is likely to develop a genuinely 'third culture' (Spicer, 1997) and a consequent high degree of transnational institutional order.

In post-socialist Europe, this socio-political scenario has been more likely to evolve when the state has had some involvement, a situation which was indeed quite common in most former state socialist countries in the early stages of transition (Whitley, 1999). When the state joined the negotiation process as a powerful external stakeholder, it could, to some extent, act as a counterweight to structural asymmetry. The role of the Czech State was clear, for example, in the initial bargain between Škoda and Volkswagen, preventing Škoda becoming merely another low-cost labor site, with solely operational responsibilities (Dörr and Kessel, 2002).

However, Dörrenbächer (2002) found evidence that the modernization policy of the Hungarian State was not sufficient to explain the decision of Western investors to upgrade the profile and strategic position of local firms and give more autonomy to Hungarian managers; the socio-political structures and practices of IV itself were equally important. Complementing our arguments here, he saw the incorporation of distinctive local knowledge as being the main factor behind the emergence of more collaborative learning approaches. With this came a commitment from the Western head office to the strategic importance of the Hungarian firm and to allowing local managers direct influence on central strategic decision-making processes.

Proposition 3: When local senior managers actively accept Western polycentric-exploratory approaches, there will be sharing of tacit knowledge and deep learning in the transnational site. This is likely to result in the construction of genuinely new institutional practices and stability based on mutual trust and cooperation.

6.2. Case 6: Imitative transnational order

The second case arises from the combination of a Western ethnocentric-exploitative orientation and post-socialist passive acceptance. In this scenario, the Western partner has only limited interest in developing a stable learning relationship with the local partner, focusing on imposing control, via transfer of explicit knowledge and formal practices to the transnational site. As an ideal type, passive acceptance of an exploitative Western regime reinforces one-way transfer of minimal levels of explicit Western knowledge and expedient, superficial learning in the transnational space (Child, 2002).

The institutional consequence is a form of transnational order built around the formal practices of the Western partner, with some tendencies towards local adaptation (Hetrick, 2002). However, it is not likely to last as long as an active acceptance of an exploitative approach (case 5). This scenario may be best illustrated with ventures based on transnational assembly operations, which are set up by Western partners to benefit from cheap East European labor and other costs in a rationalized production process. Together with its exploitative mentality, the Western partner's low level of contextual sensitivity is likely to make it blind to any organizational fall-out, such as conflicts and resistance, which might be caused by the knowledge and learning practices associated with an authoritarian control ideology (Child, 2002; Johnson et al., 1996). This scenario is compatible with a short-term imitative order, which, other things being equal, has an incipient tendency towards instability – that is, to shift to case 7 or even case 8 (see Table 2).

This scenario applies most readily to large Western MNCs seeking cost leadership and operating post-Fordist production systems. For example, in Dörrenbächer's (2001) comparative study of German FDI in the Hungarian manufacturing sector, German MNCs directly transferred to their Hungarian sites formal knowledge developed in Germany. They restricted the autonomy of their Hungarian subsidiaries, by withholding a strategic role and making them either miniature replicas or rationalized manufacturers. However, Dörrenbächer (2001) concluded that such symptoms of exploitative learning were less likely to emerge in those subsidiaries that had 'a strong indigenous management as well as rather strong employee representation'.

Proposition 4: When local senior managers passively accept Western ethnocentric-exploitative approaches, controlled amounts of explicit knowledge will be transferred and only superficially learned. This is likely to result in the formal imitation of foreign practices, but short-term stability may give way to institutional atrophy or instability in the longer term.

6.3. Case 8: Transnational battlefields

The final illustrative scenario refers to the combination of an ethnocentric-exploitative Western orientation that is met with active resistance. Such a situation is likely to occur when a post-socialist enterprise, especially one with a strong local reputation, is forced into a venture against its will. Local social logics have the capacity to contest, adapt and otherwise reshape packages of formal knowledge imported by Western partners (Dobosz and Jankowicz, 2002; Jankowicz, 2001; Markóczy, 1993). From initial positions of expedient co-operation (case 6) or latent resentment (case 7), local managers can slip into outright opposition when their expertise is spurned or if they attribute predatory objectives to the Western MNC. Following Kristensen and Zeitlin (2001), we might call such a scenario a ‘transnational battlefield’, in which the transnational site experiences overt conflict between logics of action and local resentment over Western dominance.

Exploitative attitudes limit knowledge processes to the transfer of codified and technical information, and there are minimal expectations of deep learning in the transnational site. Met by absorptive incapacities created by local resistance and opposition, the Western knowledge transferred is only weakly copied and diffused. Overt conflict and limited learning makes the transnational battlefield highly contested and unstable (Dörr and Kessel, 2002). Indeed, this scenario offers a political account of venture failure that complements those of Inkpen and Beamish (1997) and Hamel (1991), in which the dominant partner uses its asymmetrical advantages to destabilize the venture. These latter tendencies may further exacerbate local oppositional responses leading to a vicious circle of institutional atrophy within the transnational site, eventuating in a collapse of the partnership.

In a study of a German-Czech automotive joint venture, Clark and Soulsby (2003) examined the creation, destabilization and dissolution of the alliance. The German MNC acted as a “colonial power”, forcing the Czech enterprise to adopt its global

practices and preventing local participation in strategic decision-making. This ethnocentric-exploitative orientation caused intense resentment and opposition, prompting the Czech enterprise to withdraw from the partnership.

Proposition 5: When local senior managers actively resist Western ethnocentric-exploitative approaches, the limited transfer of explicit knowledge will be increasingly resisted in favor of continuing local practices. This is likely to result in an overt struggle for control of the transnational site leading to institutional instability, crisis and possible collapse.

Each of the eight combinations of Western and post-socialist orientations has different prospects and implications in terms of the knowledge transferred, the learning undertaken and the microeconomic institutions constructed within the transnational social space. The three cases discussed and the dynamics implicit in the typology illustrate the range of possible processes and outcomes.

7. Conclusions

There are strong motives to adopt exploitative learning approaches in strategic alliances, for example, because of their more favorable payback schedule (Koza and Lewin, 1998; March, 1991). Indeed, it might be suggested that the strong normative, regulative and cognitive pressures in transforming societies to adapt Western standards (Peng, 2003) might make experimentation and exploration even less attractive to local enterprises and managers, for whom copying Western practices is a rational route to rapid learning and legitimation (Geppert, 2003). However, in this paper we have argued that the process and direction of institution building cannot be reduced to *passive* institution-isomorphic forces. In fact, a reasonable theoretical account of institutionalization should be able to explain the ways in which powerful social actors have intervened to enact their preferences within the social space of a transnational site. Contrary to mainstream international business approaches that tend to concentrate on Western power-holders and their capacity to acquire and maintain power, we have applied a more interactive approach toward knowledge and learning processes in IVs. By putting power and politics at the center of the emergent IV, we have not just addressed who gains power and who is left out, but related this to emergent institution building in post-socialist IV (Bachrach and Botwinick, 1992).

We have argued that relationships between Western and post-socialist companies tend to reflect and reinforce the structural asymmetries that characterize the international geopolitical and economic context. While such asymmetries offer Western managers the potential to create the governance structures and to introduce the ideas and practices that they unilaterally prefer, this view grossly understates the complexity and variability of the internal socio-political processes in a transnational site. In this sense our paper serves to shed some light on the question how managers in post-socialist contexts have learned how to become and act like members of Western dominated 'communities of practice', but in quite different ways. In case 1, we discussed the scenario of how and why the local managers become actively involved in mutual learning activities. In case 6, learning and knowledge creation was interpreted as a rather passive process, and in case 8 we stressed the contested and precarious nature of certain learning situations in post-socialist IVs.

The post-socialist managers' willingness to adopt Western practices fully when linked to ethnocentric-exploitative approaches by Western strategic managers may, within the asymmetric conditions of the transformation IV, produce the knowledge, learning and institution building outcomes proposed by low context research. However, as we have argued, the socio-political process of transnational sites can also take other forms, associated with different combinations of Western and post-socialist orientations to the international venture. In addition to unilateral knowledge transfer, imitative learning and stable, mimetic reproduction of Western practices in the transnational site, it is possible to explain cases where transferred knowledge has been repelled and institutions are built on indigenous resources with varying degrees of hostility to the MNC partner and of institutional instability within the transnational site. Equally, within the advocated framework, we can understand processes of genuinely mutual knowledge exchange, deep learning of tacit knowledge and stable, enduring institution building through the combination and recombination of new ideas and old practices from both partners.

The theoretical framework developed in this paper goes some way toward comprehending this diversity, complexity and precariousness of institutional change. If, as we argue, the macroeconomic transformation is in some way the aggregated product of these diverse microeconomic transformations, it is not surprising that the nature and degree of transformation has varied from country to country, locality to

locality, industry to industry and, ultimately, organization to organization. It is true that the conceptual linchpins of the framework need further elaboration based on empirical observation. Research on the empirical variations in strategic and management orientations within a multicultural transnational site is an important first step. More case study work would allow us to deepen our grasp of how power holders' orientations are enacted as strategic choices within the politics of asymmetric relations, hence capturing the internal dynamics of asymmetric relations in IVs over time.

We think that this form of argument has particular relevance beyond the post-socialist context in setting a research agenda for international business in 'emerging' market economies, such as Brazil, China, Mexico and Turkey. As with early research in the post-socialist context, mainstream research in emerging economies seems to have adopted a structuralist and positivist perspective (see, for example, the *Journal of International Business Studies*' recent Call for Papers on 'International expansion of emerging market businesses'). Learning from research experiences in post-socialist Europe may hasten a more complex and refined understanding of microeconomic insitutional development in transnational sites in emerging economies.

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Table 1

Combined strategic orientations in asymmetric transnational alliances

Western strategic orientations	Post-socialist orientations			
	Active acceptance	Passive acceptance	Passive non- conformity	Active opposition
Polycentric- Exploratory	1	2	3	4
Ethnocentric- exploitative	5	6	7	8

The focus of the discussion of the paper is on the cases printed in bold

Table 2
The Eight Cases

Case	Partner orientations	Patterns of knowledge and learning	Institution building (transformation) processes and outcomes
1.	Polycentric-exploratory Active acceptance	Western sharing of explicit and tacit knowledge; deep mutual learning	<i>Assimilative transnational order</i> : stable, adaptive and incremental transformation based on foreign and local values. Long term stability based on mutual trust. Genuinely new institutions
2.	Polycentric-exploratory Expedient conformity	Western desire to share explicit and tacit knowledge; initial local reticence and suspicion, but learning gets deeper	<i>Incipient transnational order</i> : initially slow institution building, as Western ideas are affected by mild local path dependency; possible tendency to Case 1 if local trust is built through negotiating differences, leading to longer term stability and mutually constructed new practices
3.	Polycentric-exploratory Passive non-conformity	Western desire to share explicit and tacit knowledge, but possible withdrawal with non-cooperation; limited and shallow learning, especially in short term	<i>Incipient transnational disorder</i> : Like 2, but less predictable. Outcome depends of whether (and how quickly) the local partner responds to foreign partner's aims and how tolerant/patient the foreign partner is; reproduction of local practices may lead to withdrawal of foreign partner, a strategic redefinition of IV and/or a shift to Case 4
4.	Polycentric-exploratory Active opposition	Western desire to share explicit and tacit knowledge, but likely withdrawal with local opposition; local resistance to sharing and learning	<i>Transnational disorder</i> : local opposition to foreign strategic aims is manifested in the everyday reproduction of historical local practices and restricted development of new combined practices. Significant institution building is doomed to failure, and Western partner may resort to exploitation-ethnocentrism

Case	Partner orientations	Patterns of knowledge and learning	Institution building (transformation) processes and outcomes
5.	Ethnocentric-exploitation Active acceptance	Western partner strongly controls and minimizes knowledge transfer and is uninterested in local knowledge; local partner learns the shallow knowledge on offer	<i>Imitative transnational order</i> : direct copying of Western practices into IV, willingly enacted by local partners. Minimal influence of local know-how may lead to weak institutional fit with local environment and hence a frail institutional order
6.	Ethnocentric-exploitation Expedient conformity	Western partner strongly controls and minimizes knowledge transfer and is uninterested in local knowledge; reluctant learning of even codified knowledge	<i>Short-term imitative transnational order</i> : IV mimics formal structures and practices of foreign partner, but local partner may filter imported ideas through past practices. Short-term mutual commitment to superficial institution building builds instability and/or atrophy into the transnational site; possible shift to Case 5 or Case 7
7.	Ethnocentric-exploitation Passive non-conformity	Western partner controls and minimizes knowledge transfer and is uninterested in local knowledge; general antipathy to foreign ideas minimizes learning on site in favor of local ways	<i>Incipient transnational battlefield</i> : local unwillingness to cooperate but lack of active resistance can lead to some short-term installation of formal structures but also minimize the scope and depth of institution building. Possible Western resort to domination can create instability and movement towards Case 8
8.	Ethnocentric-exploitation Active opposition	Western partner strongly controls and minimizes knowledge transfer and is uninterested in local knowledge; local partner resists acquiring the minimal knowledge on offer and asserts own practices	<i>Transnational battlefield</i> : lack of any interest in knowledge sharing results in a battle of wills, each trying to control the other. Could lead to a vicious circle of dysfunctional control, as Western partner asserts 'right' to achieve its ends and local partner resists even more strongly. Institutional outcomes would include instability, crisis and collapse

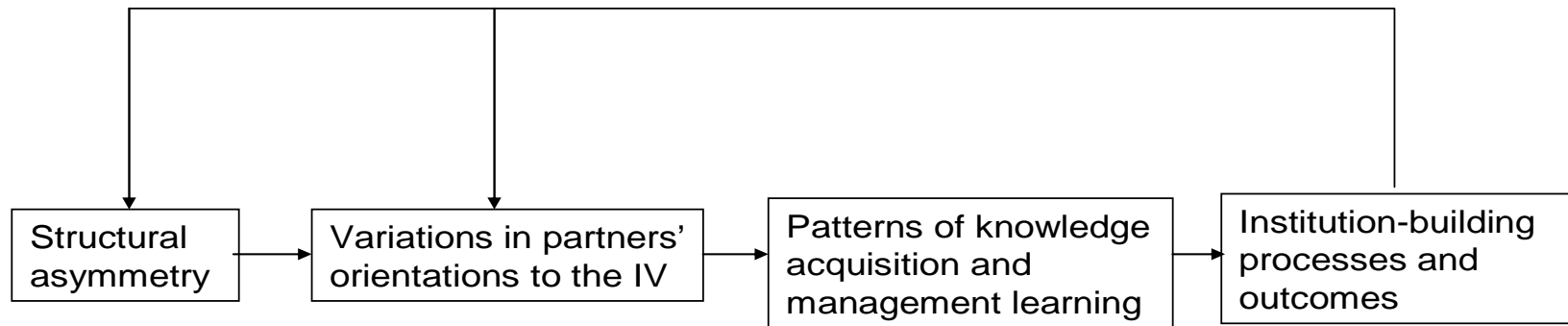


Figure 1: Socio-political processes, knowledge and institution building