

CHAPTER FIFTEEN

International Joint Ventures

A: Main Teaching Points (by textbook section)

In general, one of the alternatives by which a company implements its strategy is by cooperating with a foreign company in establishing an international joint venture (IJV). This chapter focuses on the problems of partner selection and the factors that influence the success or failure of the venture.

15.1 Introduction

This section makes three points. First, it shows the importance of investing in the search for the best possible joint venture partner. An inappropriate choice of partner may give rise to serious problems in the future. Second, it shows the importance of environmental factors in deciding the choice. (In this introductory case, one significant factor was the pace of technological change in China.) Third, it shows that in some situations business factors may have a greater influence on decision making than does culture.

15.2 Why form an IJV?

The section first defines the IJV. Examples can be found of projects established by three or more parents, and of projects based outside the countries of parents. However, such cases are relatively unusual, and this chapter focuses on the basic two-parent model in which one parent is local and one foreign.

One reason for multinational companies preferring to invest in IJVs than in fully owned subsidiaries is that control is no longer seen as an end in itself. Increasingly, managements have to ask themselves how much and what sort of control is needed in order to achieve strategic goals. Emphasize that each partner selects the IJV as a means of implementing its own strategy, and that each has different reasons for entry.

The IJVs often fail to meet their financial targets, and by this criterion alone the decision might be risky. However, success and failure are difficult to measure, and other non-financial reasons may be more important in justifying the alliance.

Emphasize that there may be good and legitimate reasons for *not* entering an IJV (subsection 15.2.4): these include needs to keep control of proprietary technologies. This topic was introduced in section 14.3, and is developed in the material on management control issues in the IJV (section 15.5).

15.3 The compatible partner

The Introduction noted the importance of partner compatibility. Significant factors include business interests, available resources, size, time-scales, and trust between the partners, IJV staff, and other persons involved. This last concept is perhaps the most important, and is developed in the next section.

15.4 Explaining success and failure

The partner needs to calculate the conditions under which it can and cannot trust its partner.

Because each partner operates in a business environment that is constantly changing, its strategic goals are continually modified, and implementation systems have to be continually revised. And because each partner operates in a different environment, the conditions for trust when the project was initiated are changed. Changes in the environment may force a partner to modify its interests in a particular venture. This places inevitable pressures on relations between the partners, and the IJV management and partners.

This means that great attention has to be paid to preparing and negotiating the contractual documentation. If the partners do not trust each other in the negotiation phase, they should not sign the project contract.

Further problems arise in building trust between the different staffs concerned and other bodies as the project develops.

This introduces an important point; the partners belong in different national environments, and the differences may be acute. These environments are bound to influence the partners' interests in the IJV and in other projects and its commitment, and when the environments are in great variance, the strains may be acute.

Emphasize that culture is only one of the factors influencing selection of a venture partner, and trust in that partner. A newspaper study quickly reveals examples of projects that have prospered despite being formed by parents of supposedly less compatible cultures, and failed projects between supposedly compatible parents. Models of culture give only very general guidelines in this regard.

The implication is that the IJV is an inherently unstable arrangement, and increasingly so as business becomes less accessible to formal planning. This helps explain why IJVs are, first, increasingly given tighter focus (for instance, less often in general manufacturing and sales, and more often dedicated to tightly defined research and development projects) and, second, they may have a time span of only a few months.

15.5 Sharing control

This section deals with issues of how the partners share control of the project. The notion that responsibilities can be duplicated in all functions may be superficially attractive but is impractical. In practice, each partner is likely to seek control of those functions in which it has particular interests.

Subsection 15.5.3 applies the general principles of appropriate communication discussed in table 5.1. The fact that so many different parties may be involved (partners, project staff, and parties in the environment) adds to the complexity. So far as possible, responsibilities and systems need to be designed and spelled out at an early stage in the planning in order to build trust.

B: Implications for the Business Student

(This section modifies the material on p. 348 of the textbook.)

Research any projects established by your business school in partnership with a foreign business school (or other organization) and answer these questions.

1. Why did the partners decide to establish the project? At the time when the project was planned:
 - What advantages did the project appear to offer your school? Why did the project appear likely to meet your strategic needs?
 - What advantages did the project appear to offer your partner? Why did the project appear likely to meet their strategic needs?
2. In what respects did the project succeed in meeting the strategic needs of your school?
 - What internal factors contributed to this success?
 - What environmental factors contributed to this success?
 - How could this success have been enhanced?
3. In what respects did the project fail to meet the strategic needs of your school?
 - What internal factors contributed to this failure?
 - What environmental factors contributed to this failure?
 - How could this failure have been avoided?
4. So far as you can discover, in what respects did the project meet the strategic needs of your partner? In what respects did the project fail to meet the strategic needs of your partner?

C: Class Discussion Questions

1. What opportunities does an IJV give the partners to increase their technologies?
2. How might cultural difference affect the implementation of communication systems within the IJV; between the project and its parents; between the parents; and between the projects and/or parents within the environment?
3. Find examples of IJVs that have succeeded *despite* apparently incompatible national and organizational cultures; and of IJVs that have failed *despite* apparently compatible national and organizational cultures. What factors explain these successes and failures?
4. Under what circumstances might compatibility of size (measured in terms of labor force) be significant? Under what circumstances might it not matter?

D: Answers to the Exercise

If possible, provide input to this exercise by asking a visitor (perhaps a member of the school staff) who has participated in a similar IJV project to address the students on his/her experiences and the implications for communications. A visitor might also be willing to comment on proposals for communications plans.

E: Additional Exercise Material

This exercise practices identifying opportunities and problems in cultural difference.

A British consulting group, Development Management Trust (DMT), and the Eastern University of Saudi Arabia (EUSA) have signed an agreement to set up a two-year technical staff training project located in EUSA.

The project will be overseen by two executive directors, the London-based chairman of DMT and the EUSA dean of engineering, a Saudi national. The project is staffed by the following personnel, all males:

- *Manager*: British national, responsible for day-to-day activities and reporting to the two executive directors: DMT permanent staff. Native English speaker. Good Arabic.
- *Assistant manager*: Saudi national, contracted by EUSA for the life of the project. Native Arabic speaker. Poor English.
- *Five R&D specialists*: One British national, DMT permanent staff. One Jamaican, and one United States national, both contracted by the project, both native English speakers with no Arabic. Two Egyptian nationals, both EUSA permanent staff, both native Arabic speakers, with poor-to-intermediate English.

- *Media specialist*: Jordanian national, DMT permanent staff. Native Arabic speaker. Fluent English.
- *Media assistant*: Saudi national, contracted by the project. Native Arabic speaker. Intermediate English.
- *Three secretaries*: Palestinians, EUSA permanent staff. Native Arabic speakers. Intermediate-to-good English.

What opportunities and problems do you foresee?

F: Test Bank

1. Up until the 1970s, United States companies generally:
 - a. Preferred IJV agreements; this preference has further increased since then
 - b. Lacked confidence in local management, and since then have centralized further
 - c. Lacked confidence in local management, but now prefer to decentralize control when possible
 - d. Preferred IJV agreements, but now prefer to centralize control when possible.

(Answer, c: p. 332)

2. The most widespread form of American investment abroad is now:
 - a. The international joint venture
 - b. The majority-owned subsidiary
 - c. The wholly owned subsidiary
 - d. The licensing contract.

(Answer, a: p. 332)

3. In less-developed countries:
 - a. Increasing numbers of companies are trying to gain influence abroad by entering joint venture projects
 - b. Increasing numbers of companies are looking for alternatives to the joint venture as a means of gaining influence abroad
 - c. The joint venture is increasingly perceived as a tool of foreign domination
 - d. Governments are increasingly resisting foreign control of equity.

(Answer, a: p. 332)

4. Each partner's goal for the IJV should:
 - a. Be identical to that partner's strategic goal
 - b. Implement that partner's strategic goal
 - c. Be unrelated to that partner's strategic goal
 - d. Take account of the other partner's strategic goal.

(Answer, b: p. 332)

5. Research by Park and Ungson (*Academy of Management Journal*, 40(2), 1997) showed that:
- No more than 20 percent of IJVs fail
 - No more than 30 percent of IJVs fail
 - As many as 50 percent of IJVs fail
 - As many as 80 percent of IJVs fail.

(Answer, c: p. 333)

6. Research evidence suggests that often in the short term:
- Joint ventures produce significantly greater yields than do alternative forms of foreign investment
 - Joint ventures produce the same yields as do the alternatives
 - Joint ventures produce lower gross yields than do the alternatives
 - Joint ventures only produce greater yields than do the alternatives after the seventh year of operations.

(Answer, c: p. 333)

7. An IJV offers the foreign partner:
- The opportunity to evade the host government's requirements for doing business in the country
 - The opportunity to meet the host government's requirements for doing business in the country
 - Opportunities to generate downstream industries only
 - Opportunities to generate upstream industries only.

(Answer, b: p. 334)

8. The concept of strategic fit means that:
- One partner supplies all necessary resources
 - The strategic goals of the two partners are incompatible
 - The strategic interests of the partners are incompatible
 - The strategic interests of the partners are compatible.

(Answer, d: p. 336)

9. Resource complementarity means that:
- Partners share strategic MNC goals
 - Partners share strategic goals for the IJV
 - Partners share IJV goals and are able and willing to implement them
 - Partners do not share MNC goals.

(Answer, c: p. 337)

10. Canadian research shows that the first year of IJV operations is likely to:
- Be the most difficult
 - Be the easiest
 - Be the easiest in terms of partner selection but most difficult in terms of communication
 - Cause the partners to renegotiate.

(Answer, a: p. 339)

11. Change in the business environment:

- a. Means that partners are less likely to trust each other when they are of similar size
- b. Means that partners are more likely to trust each other when they are of similar size
- c. May cause partners to modify their priorities, and interests in the IJV
- d. Has little impact on the IJV.

(Answer, c: p. 340)

12. Mistrust between staff posted to the IJV and their headquarters arises when:

- a. They lack confidence in their headquarters
- b. Staff from the two partners interpret the goals of the IJV differently
- c. The national cultures of the headquarters and IJV fit
- d. The organizational cultures of the headquarters and the IJV do not fit.

(Answer, a: p. 341)