INTERNATIONAL JOINT VENTURES

By

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THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

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ABSTRACT
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The study presented here concentrates on a particular form of joint ventures, namely those with an international perspective. It starts with a definition of joint ventures and the different types these may take, continuing with detailing the types of problems that arise in negotiating joint venture agreements. Further on, a comparative analysis between wholly owned subsidiaries and joint ventures underlines the pros and cons in choosing either path while deciding to make an investment abroad. Both sides of a joint venture need to sustain comparative advantages in the relationship, the absence of which, on either side, will cause the joint venture to be less successful or, at the extreme, to fail. While cultural and personal factors can clearly be important to success as well, they are less critical than the maintenance of organizational complementarities between the two or more corporate partners.

Joint ventures are perhaps more commonplace in dynamic sectors such as information technology, but they are also found in many traditional sectors, such as natural gas, mining and food distribution. In addition, joint ventures continue to be an important means of tapping local market expertise and thus facilitating foreign direct investment, especially where such investment would be legally blocked without the involvement of the local partners (e.g. international airline alliances).
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“Downsizing, divestment, mergers, acquisitions - these dominate the headlines. But the greatest change in corporate structure, and in the way business is being conducted may be the largely unreported growth of relationships that are not based on ownership but on partnership: joint ventures, minority investments cementing a joint-marketing agreement or an agreement to do joint research; and semi-formal alliances of all sorts.” [Drucker (1999, 798)]
I. Introduction and definition of joint-ventures.

Global strategic decisions are made primarily at the corporate or regional level. These relate to the long-run direction and goals of the firm, for example international market entry, market expansion and development strategies; that is whether and which new countries or product markets should be entered and what portfolio of countries provide the appropriate balance for future growth.

A joint venture (often abbreviated JV) entails establishing a firm that is jointly owned by two or more otherwise independent firms which undertake economic activity together. The parties agree to create a new entity by both contributing equity, and they then share in the revenues, expenses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship. The most typical joint venture is a 50/50, in which there are two parties, each of which holds a 50 percent ownership stake and contributes a team of managers to share operating control (this was the case with Fuji-Xerox joint venture until 2001; it is now a 25/75 venture, with Xerox holding 25 percent). Some firms, however, have sought joint ventures in which they have a majority stake and thus tighter control.

Joint ventures are widely used by companies to gain entrance into foreign markets. Foreign companies form joint ventures with domestic companies already present in markets the foreign companies would like to enter. The foreign companies generally bring new technologies and business practices into the joint venture, while the domestic companies already have the relationships and requisite governmental documents within the country along with being entrenched in the domestic industry.

For cross-cultural management strategies to succeed they should be based on cultural implications that derive from basic values, beliefs, world views and social relationships. In the case of US businesses doing businesses in China, Xing (1995) illustrates how these firms should be concerned with the underlying forces that influence Chinese business practices. Thus, for example, the common approach by Americans to solve a problem is to follow the following steps:

- identify, define the problem;
- analyze and understand the problem;
set a goal/objective;
identify, evaluate and select the options available;
plan and schedule;
implement and control;
follow-up and assess the outcome.

This classic pattern is analytical, logical, linear, orderly and explicit. However, it can have its limitations:

- flexibility and economy of thinking may suffer from a rigidly fixed pattern;
- the process of thinking is much more integrated and not necessarily segmented and linear;
- an analytical approach is not always applicable to managerial issues.

In contrast to this the Chinese mind is influenced by Confucianism, family-ism, a group orientation and a spiritual ideal of life. Thus, because of this tradition the Chinese think in terms of concrete analogy which places the situation in a form more easily grasped in its entirety. Synthesis, intuition, concrete image and use of proverbs are often the first Chinese priorities. Xing likens the different approach by the Chinese as being akin to the difference between masculinity and femininity.

Thus, effective cross-cultural management strategies must be based on the implications of actual cultural mechanisms and not on any temporary fashions which only run skin-deep and are likely to generate disorientation. Three key pointers for American (westernized) businesses going to China are:

- build up a primary understanding of the major forces that have framed the Chinese culture;
- maintain an open and adaptable mind for different management and negotiation styles and practices;
- minimize value judgments exclusively based on American cultural terms about Chinese business deviations.

The prospect of coping with an entirely new culture can seem daunting, and has resource implications depending on the size and experience of the firm. One option for attempting to deal with market entry and local culture is to link with a domestic firm in the target country and the local organization. This double-layered acculturation process encourages learning and can be useful in future expansion plans. This was illustrated in research reported by
Zacharakis (1996) who cites a study of thirteen Dutch firms and their 225 foreign ventures between 1966 and 1988. As would be expected, entry was more successful where the new country’s culture was similar to the domestic culture. Having to cope with country and company cultural adjustments slowed down the initial success of the venture, but due to the intensity of the learning experience the success of future ventures was increased. In other words the organization was applying its experience and gaining from it.

In another study (Dunham, 1996) the CEO of Conoco relates how the company became involved in the Russian oil business in the Timan Pechora Region. Through the company’s commitment to relationship building at all levels. It survived the political evolution from Gorbachev to Yeltsin. The pragmatic approach adopted by the company involved talking to all parties involved, whether in or out of government, about their prospects. Underlying Conoco’s efforts was a philosophy based on a desire to be a true partner of local interests, both in the business community and in the societal sense. A great deal of time was spent talking to local people explaining why Conoco believed its presence would benefit all. This also involved listening to local concerns. Eventually a joint venture company was established to develop the old field at Ardalin. The first oil was produced in 1994 and Conoco believe that the experience and the respect gained from this project will help them in the future to develop bigger projects. The advice offered by the CEO is pertinent and transferable in general to market entry decisions across cultural boundaries.

- Be true to your core beliefs and practices;
- Take time to let people know who you are;
- Honour the local history and culture
- Act like the guest you are
- Persevere.

While the former communist dominated economies of Eastern Europe have experienced many changes since the fall of the Berlin wall in 1989, economic and cultural change do not always proceed at the same pace. Randall and Coakley (1998) have studied the impact of culture on the strategies of joint ventures between Western companies and organizations located in Russia and Belarus. They observed Russian managers as they attempted to fuse their cultural norms, past training and work experience with the demands of the market-in-transition. Managerial
behaviour very often remained steeped in the achievement of production goals in lieu of marketplace edicts, and the maintenance of labour in spite of cost and profit implications for the company. Many managers still held the view that technological superiority was paramount in the attainment for social welfare and national security.

Randall and Coakley observe that change lags behind structural change and this will inevitably impact on any joint venture partnership. However, the crucial factor here, as with many of the issues raised in this chapter, is that through an awareness of cultural differences and the beliefs of others, productive, creative and profitable collaborations can be achieved.

Any search for an international partner is not solely based on a good cultural fit. The companies will be concerned with the strategic issues of partner characteristics, product-market synergy and the financial strength of the potential partner. However, the underlying importance and potential impact of the cultural dimension cannot be understated, and should be viewed as an essential foundation of any international joint venture.

Even the exchange of a business card in Japan can be a culturally significant experience. Business cards serve an important function in doing businesses in Japan, and the exchange of business cards is an integral part of Japanese business etiquette. Japanese business people exchange cards when meeting someone for the first time who may have significance in the future. As Japanese business becomes increasingly internationalized, those Japanese business people most likely to interface with non-Japanese are often supplied with business cards printed in Japanese on one side and a foreign language, usually English, on the reverse side. This is aimed at enhancing recognition and pronunciation of Japanese names, which are often unfamiliar to foreign business people. Conversely, it is advisable for foreign business people to carry and exchange with their Japanese counterparts a similar type of card printed in Japanese and their native language. These cards can often be obtained through business centres in major hotels.

When receiving a card, it is considered common courtesy to offer one in return. Not returning a card might convey the impression that you are not committed to a meaningful business relationship in the future. In consideration of the numerous opportunities for exchanging cards in Japan, it is advisable to use a business card holder – a case that resembles a compact wallet that prevents cards from becoming creased and tattered and allows for easy access.
When presenting and receiving business cards, several basic points should be kept in mind to avoid committing a *faux pas*. Business cards should be presented and received with both hands. When presenting your card, make sure your name is not upside down from the recipient’s point of view and that the card is presented with the appropriate side up, again from the recipient’s point of view, if printed in more than one language. When receiving a business card, it should be handled with care. If you are sitting at a conference or other type of table, the card is usually placed on the table in front of you for the duration of the meeting. It would be considered rude to put a prospective business partner’s card in your pocket before sitting down to discuss business matters.
II. Strategies with international investment.

Strategies with international investment would comprise:

1. establishing a market subsidiary. This mode is favoured where the company feels that its own marketing skills are better than any agent it could engage. Having the local presence is deemed to be important to the image of the company in the country. By creating this feeling of presence, the company enhances its own credibility, and perhaps acceptability, in some politically sensitive markets.

2. establishing a manufacturing or assembly subsidiary. Wholly owned production facilities are a popular strategy for many larger companies. The organization can be attracted to this option in order to seek new markets, obtain access to resources, or improve the efficiency of their operation, partly through increased productivity.

This option allows full control with no dilution of profits to other operators or agents, and can reduce transports costs. It also allows the company to take advantage of financial incentives from the host government, lower labour costs, access to raw material and perhaps avoid punitive import taxes. However, the capital cost involved can be prohibitive, and in certain politically risky countries the future can be uncertain. However, there are many incentives offered to footloose international investment.

A variation on this approach is to establish a local presence by acquiring or merging with a local firm. This is a faster route to entering the market than building a brand new facility. It gives immediate market intelligence, market share and established channels of distribution. There can be disadvantages in amalgamating to distinct company cultures, a product line and/or a management team that was underperforming. However, this mode, which was much in fashion in the 1960’s and 1970’s, seems to be making a comeback in the early years of the new century.

3. joint ventures. This option provides an important local feel to the investment without carrying all the risk.

The partner can also provide the all important knowledge and access to networks, as well as reducing political and cultural barriers which might have been present in acquisition or in developing a wholly owned subsidiary. Some governments specifically encourage this form of investment rather than experience too many international operators moving in. On the down side there is a certain loss of control and a risk that the partner organization may not be all that it appeared. Within the corporate structure there can also be
tensions between the corporate culture and ambitions versus the local identity. There are two distinct types of joint ventures: joint equity venture and contractual, as in strategic business alliances.

A joint equity venture consists of domestic and international companies coming together to share ownership and control in a venture. This may involve buying into a company or forming a new local business. As the name implies, such an arrangement involves investment over a period of time, which does not have to be fixed. Often such a business set-up is required by the government as the only means of market entry allowed. Alternatively, the firm’s own economic reasons may force such co-operation. The astute choice of partners is essential to the venture’s success, as disputes can be time consuming and expensive. It is important that the partners work to establish and develop a relationship which will evolve over time.

A contractual joint venture is of fixed duration, with the specific duties of each partner well defined. Under such a scheme, a company contracts a manufacturer abroad to produce its product and provide all supporting services in the market. There is, of course, a loss of control in this arrangement, but if it works it can lead to closer co-operation between the companies, and certainly involves less capital than direct investment in production facilities.

Reference to a joint-venture is made with respect to the purpose of the entity and not to a type of entity. Therefore, a joint venture may be a corporation, limited liability company, partnership or other legal structure, depending on a number of considerations such as tax and tort liability.

Joint ventures are common in the oil and gas industry, and are often co-operations between a local and foreign company (about 3/4 are international). A joint venture is often seen as a very viable business alternative in this sector, as the companies can complement their skill sets while it offers the foreign company a geographic presence. Studies show a failure rate of 30-61%, and that 60% failed to start or faded away within 5 years. (Osborn, 2003) It is also known that joint ventures in low-developed countries show a greater instability, and that JVs involving government partners have higher incidence of failure (private firms seem to be better equipped to supply key skills, marketing networks etc.) Furthermore, JVs have shown to fail miserably under highly volatile demand and rapid changes in product technology.
Some countries, such as China and to some extent India, require foreign companies to form joint ventures with domestic firms in order to enter a market. This requirement often forces technology transfers and managerial control to the domestic partner.

With regards to foreign direct investment (FDI) the Global Investment Trends Monitor, dated January 19, 2010, issued by the United Nations Conference on Trade and Development (UNCTAD) on the global and regional FDI trends in 2009 shows a general decrease of 39% in global foreign direct investment in 2009 with impact on all countries and foreign direct investment components (equity capital, reinvested earnings and other capital flows – mainly intra-company loans). This represents a decrease from US$1.7 trillion in 2008 to a little over US$1.0 trillion based on UNCTAD estimates. Equity investment, one of the major components of FDI and most directly related to transnational corporations’ long-term investment strategies, suggests that companies were very cautious with their international investment strategies during the 3rd quarter of 2009. Also, international greenfield projects, as another indicator of FDI activity, shows a significant lower figure in 2009 than for the same period in 2008. Illustrative in this respect are Figure 1 and Figure 2 (pages 36 and 37 respectively).

The International Monetary Fund (IMF) through its World Economic Outlook report of April 2010 shows a 4 ¼ % for the world growth in 2010 (Figure 3 – page 38) and notes that recovery is stronger than expected but speed varies, “tepidly in many of the advanced economies but solidly in most emerging and developing economies” (Figure 4 – page 39). In terms of country and regional perspectives for growth in 2010 - 2011, the IMF shows substantial variations across and within regions (Figure 5 – page 40) with a projected average growth exceeding 10 percent in some economies whereas in others this is expected to be negative.
III. Joint-ventures – benefits and risks.

Reasons for forming a joint venture:

- Internal reasons
  1. Build on company's strengths
  2. Spreading costs and risks
  3. Improving access to financial resources
  4. Economies of scale and advantages of size
  5. Access to new technologies and customers
  6. Access to innovative managerial practices
- Competitive goals
  1. Influencing structural evolution of the industry
  2. Pre-empting competition
  3. Defensive response to blurring industry boundaries
  4. Creation of stronger competitive units
  5. Speed to market
  6. Improved agility
- Strategic goals
  1. Synergies
  2. Transfer of technology/skills
  3. Diversification

War stories about failed alliances make executives wary of forging new joint ventures and unsure about how to manage the ones they have. But the strategic benefits of cross-border alliances are compelling, and there is a wealth of experience to learn from. In fact, a study of 49 cross-border alliances of the top US, Japanese and European companies found several patterns that have managerial implications.¹

The study found, for instance, that unlike cross-border acquisitions, cross-border alliances are most suitable for edging into new businesses or for expanding existing businesses into new geographic regions. It also found that alliances formed to buttress a weak company generally don’t succeed. One joint venture to manufacture cars in Europe failed despite the many strengths of the Japanese partner. The European partner, which was supposed to provide the management skill, was simply too weak and dragged down the whole venture.

Alliances must be free to evolve as the environment changes and opportunities arise. That explains why alliances like the ones between Toshiba and Motorola, GE and Snecma, and Corning and Siemens have been so successful and long lasting. Contrary to conventional wisdom, fifty-fifty ownership of joint ventures improves decision making, and most alliance end with one parent acquiring the venture.

In the face of newly opening markets, intensified competition, and the need for increased scale, many CEOs have put the formation of cross-border alliances on their agenda for the 1990s. To international managers, the strategic benefits are compelling: alliances are an expedient way to crack new markets, to gain skills, technology, or products, and to share fixed costs and resources. Yet a lot of the war stories suggest that alliances are all but doomed to failure, and CEOs setting up cross-border alliances or dealing with early problems find little is systematically known about how to make alliances succeed.

To better understand cross-border alliances and what it takes to make them work, we examined the partnerships of 150 top companies ranked by market value (50 each from the United States, Europe and Japan). The 49 strategic alliances that we studied in detail varied widely in size, location, industry, and structure. Some were established to speed entry into a new market, others to develop and commercialize new products; still others to gain skills or share costs.

An analysis found that although cross-border alliances pose many challenges, they are in fact viable vehicles for international strategy. While two-thirds of cross-border alliances run into serious managerial or financial trouble within the first two years, many overcome their problems. Of the 49 we analysed, 51% were successful for both partners. Only 33% resulted in failure for both.
How can managers maximize their chances of success in these ventures? What wisdom can be derived from the experiences to date? Here are a few findings:

- Arguments over whether cross-border alliances or cross-border acquisitions are superior are beside the point; both have roughly a 50% rate of success. But acquisitions work well for core businesses and existing geographic areas, while alliances are more effective for edging into related businesses or new geographic markets;
- Alliances between strong and weak companies rarely work. They do not provide the missing skills needed for growth, and they lead to mediocre performance;
- The hallmark of successful alliances that endure is their ability to evolve beyond initial expectations and objectives. This requires autonomy for the venture and flexibility on the part of the parents;
- Alliances with an even split of financial ownership are more likely to succeed than those in which one partner holds a majority interest. What matters is clear management control, not financial ownership;
- More than 75% of the alliances that terminated ended with an acquisition by one of the parents.

All of these findings have implications for creating and managing successful cross-border alliances.

1. **Related businesses, new geographic markets**

Both cross-border alliances and cross-border acquisitions are good vehicles for international strategy and have similar success rates (51% and 57% respectively). But that doesn’t mean that they are interchangeable. When used to expand core businesses, both cross-border alliances and acquisitions work well. But for expanding existing businesses into new geographic regions or for edging out into new businesses, cross-border alliances work better.¹

When moving into new geographic markets, managers should try to structure alliances to capitalize on the distinctive geographic positions of the partners. Some 62% of the alliances that involved partners with different

geographic strengths succeeded. This is very different from the finding for cross-border acquisitions: the success rate was just 8% when the acquirer and the target company did not have significant overlapping presences in the same geographic markets.

Crédit Suisse – First Boston, a joined venture formed in 1978 to expand both companies’ positions in the Eurobond market1, shows the benefits of using alliances to leverage complementary geographic strengths. First Boston provided access to US corporate issuers of bonds and possessed the skills for structuring new financial vehicles like convertible Eurobonds. Credit Suisse provided the capability to place issues with investors in Europe. This combination allowed the joint venture to assume a leading role in the rapidly growing Eurobond markets in the early 1980s. (the joint venture was bought out by Credit Suisse in 1988 after First Boston began to experience financial problems, which were partly due to increasing competitiveness in the Eurobond markets).

To build the position of core businesses in existing geographic markets, managers should use acquisitions instead of alliances. For acquisitions focused on existing markets, the success rate was 94%. For alliances in which partners had overlapping geographic positions, it was 25%. When both partners have a presence in the same geographic markets, alliances often lead to competitive conflicts. In one cross-border venture to manufacture and sell telecommunications products in the United States, one of the partners continued to sell a competing product line through a separate sales force. In theory, the two sales forces were targeting different customer segments, but because they were poorly coordinated, they ended up in competing against each other. Within two years, the venture was acquired by one of the parents, and the sales forces were combined.

In the few instances in which companies have tried to use acquisitions instead of alliances to diversify abroad, they have had trouble withstanding the financial and operational strain. Not surprisingly, most companies pass up the challenge of making an acquisition to enter a new business overseas. Of the 28 cross-border acquisition programs in a study, 22 were focused on geographic expansion of core businesses; in 13 of the 16 successful programs, the acquirer already had a substantial presence in the target countries and was expanding a core business.

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Managers should avoid acquisitions outside the core business, especially in new geographic markets, because they are extremely challenging and often fail. Take, for example, the British service company that acquired a Canadian electronics manufacturer to try to become a global player in the office automation industry. The Canadian company, a large second-tier player, was under intense competitive pressure: demand was soft, prices were falling, and competitors were merging to gain economies of scale. Under the new parent, the Canadian company took several steps, including rationalizing manufacturing operations to cut costs and spinning off a small subsidiary. But the UK company, with little direct experience in the North American market, was unable to make the needed improvements in distribution and sales, which had been weak before the merger. The new parent also had no manufacturing facilities in North America and so was unable to expand volume to drive down costs. Finally after absorbing five years of operating losses and losing a considerable amount of senior management’s time, the parent decided to divest the business at a fraction of its purchase price.

Unlike cross-border acquisitions, cross-border alliances can work well for moving into new or related businesses. Corning’s well-publicized joint venture with Siemens to produce fibre-optic cable is an example of successful move into a related business. The Siecor joint venture, started in 1977, succeeded for many reasons. For one thing, the parents brought complementary skills and capabilities. Corning had developed and patented processes to manufacture high-quality optical-fibres. Siemens had capital, scale, and worldwide distribution of telecommunications cable. Siemens also brought the manufacturing technology and equipment to produce cable from fibre. The alliance had distinct advantages over an acquisition. It allowed the creation of an enterprise focused on commercializing fibre-optic cable, and it relieved some of the financial pressure by dividing the investment. Moreover, neither company had to recoup an acquisition premium.

2. Strategic alliances

Strategic alliances refer to cooperative arrangements between potential or actual competitors\(^1\). Strategic alliances run the range from formal joint ventures, in which two or more firms have equity stakes (e.g. Fuji-Xerox), to short-term contractual agreements, in which two companies agree to cooperate on a particular task (such as developing a new product).

product). Collaboration between competitors is fashionable; recent decades have seen an explosion in the number of strategic alliances.

a) The advantages of strategic alliances

Firms ally themselves with actual or potential competitors for various strategic purposes. First, strategic alliances may facilitate entry into a foreign market. For example, many firms feel that if they are to successfully enter the Chinese market, they need a local partner who understands business conditions and who has good connections (or guanxi). Thus, in 2004 Warner Brothers entered into a joint venture with two Chinese partners to produce and distribute films in China. As a foreign film company, Warner found that if it wanted to produce films on its own for the Chinese market, it had to go through a complex approval process for every film, and it had to farm out distribution to a local company, which made doing business in China very difficult. Due to the participation of Chinese firms, however, the joint-venture films will go through a streamlined approval process, and the venture will be able to distribute any films it produces. Moreover, the joint venture will be able to produce films for Chinese TV, something that foreign firms are not allowed to do.

Second, strategic alliances allow firms to share the fixed costs (and associated risks) of developing new products or processes. An alliance between Boeing and a number of Japanese companies to build Boeing’s latest commercial jetliner, the 787, was motivated by Boeing’s desire to share the estimated $8 billion investment required to develop the aircraft.

Third, an alliance is a way to bring together complementary skills and assets that neither company could easily develop on its own. In 2003, for example, Microsoft and Toshiba established an alliance aimed at developing embedded microprocessors (essentially tiny computers) that can perform a variety of entertainment functions in an automobile (e.g. run a back set DVD player or a wireless Internet connection). The processors will run a version of Microsoft’s Windows CE operating system. Microsoft brings its software engineering skills to the alliance and Toshiba its skills in developing microprocessors. The alliance between Cisco and Fujitsu was also formed to share know-how.
Fourth, it can make sense to form an alliance that will help the firm establish technological standards for the industry that will benefit the firm. For example, in 1999 Palm Computer, the leading market of personal digital assistants (PDAs), entered into an alliance with Sony under which Sony agreed to license and use Palm’s operating system in Sony PDAs. The motivation for the alliance was in part to help establish Palm’s operating system as the industry standard for PDAs, as opposed to a rival Windows-based operating system from Microsoft.¹

b) The disadvantages of strategic alliances

The advantages can be significant. Despite this, some commentators have criticized strategic alliances on the grounds that they give competitors a low-cost route to new technology and markets. For example, a few years ago some commentators argued that many strategic alliances between US and Japanese firms were part of an implicit Japanese strategy to keep high-paying, high-value added jobs in Japan while gaining the project engineering and production process skills that underlie the competitive success of many US companies. They argued that Japanese success in the machine tool and semiconductor industries was built on US technology acquired through strategic alliances. And they argued that US managers were aiding the Japanese by entering alliances that channel new inventions to Japan and provide a US sales and distribution network for the resulting products. Although such deals may generate short-term profits, so the argument goes, in the long run the result is to “hollow out” US firms, leaving them with no competitive advantage in the global marketplace.

These critics have a point; alliances have risks. Unless a firm is careful, it can give away more than it receives. But there are so many examples of apparently successful alliances between firms – including alliances between US and Japanese firms – that their position seems extreme. It is difficult to see how the Microsoft-Toshiba alliance, the Boeing-Mitsubishi alliance for 787, or the Fuji-Xerox alliance fit the critics’ thesis. In these cases, both partners seem to have gained from the alliance. Why do some alliances benefit both firms while others benefit one firm and hurt the other would be another point of discussion.

c) Making alliances work

International strategic alliances have a high rate of failure. According to a study, involving forty nine such international strategic alliances, 2/3 of alliances go through important managerial and financial issues in 2 years time following their formation. And in spite of the fact that an important part of these issues are dealt with, 33 % are considered a failure according to the forming partners of the alliance. Therefore, the key cumulative factors of a successful alliance are selection of a partner, structure of the alliance and the management of an alliance.

d) Partner selection

Choosing the right partner in an alliance seems to be a very important aspect for its future. Three traits of the right partner could be identified as follows:

- Possess the skills and knowledge necessary for the right functioning of the alliance while embracing its strategies, access to the market, development’s associated risks and costs, accessing main competencies. The partner should add value to the alliance through its capabilities valued and needed by the respective alliance.

- Sharing the vision of the firm in line with the alliance’s purpose. This is to say that when two firms pool together their efforts, they need to address this from a common perspective. If they approach the partnership on a rather different note, the result might be a stagnation leading to the end of the relationship.

- Proving fair play. That means a partner should always contribute to the benefit of the alliance and not use it for its own purposes, such as alienating the know-how of the firm and offering back little return. As an example, IBM is involved in many strategic alliances which would not pay the company by disregarding individual alliance partners (in 2003, IBM seemed to have more than 150 important strategic alliances). This would negatively add to IBM’s image and would prevent it from contracting with other potential partners in alliances. It is because IBM places a great attention to its partnerships that prevents the company from involving in opportunistic alliances so criticized by specialists. The same applies to the reputable firms of Fuji, Toshiba and Sony, which have been involved in alliances with foreign companies for many years.
In order to selecting a partner holding these main traits, a thorough research is required and therefore a company should increase its possibilities of selecting the right partner by:

- Gathering all publicly available and pertinent information with respect to the potential partner
- Collecting information from third parties, such as former employees, investment bankers, companies that have had alliances with the potential partners
- Being acquainted with the potential partner before formalizing the alliance, which should also comprise management face-to-face meetings in order to ensure that there is a match.

e) Alliance structure

When entering into an alliance it is important to protect the firm’s technology transfer and intellectual property rights. Thus, important provisions can be laid down in order to protect and render inaccessible part of the technology to be transferred. Structuring the alliance in such manner as to separate delicate technologies, including the design, development, manufacturing and service of a product fabricated by an alliance, is important in order to prevent disclosure of these technologies to the other partner. For example, an alliance to build commercial aircraft engines between Snecma and GE (General Electric), the latter protected itself from excessive production process transfer by rendering inaccessible important sections of the process. GE, therefore, granted access to Snecma only to final assembly while closing off the transfer of core competitive technology. A similar situation can be found in the alliance between the Japanese and Boeing. This alliance regarded the built of the 767 aircraft and Boeing closed off core competitive functions, such as research, design and marketing as well as new technologies not needed for the manufacturing of the 767.\(^1\)

A second measure in protecting the firm against an opportunistic partner, including here also the steal of markets or technology, is to add into an alliance agreement contractual provisions protecting from such behaviour. An example would be the strategic alliances between TRW Automotive and its Japanese suppliers for auto components. These alliances were conceived in order to produce steering gears, seat belts and engine valves for sale to auto assembly plants owned by Japanese and located in the United States. In this sense, TRW Automotive included safeguard provisions in the alliance agreement impeding the Japanese companies from supplying with component parts the

auto companies owned by US citizens. In this way, TRW Automotive guards itself against the risk of Japanese firms forming an alliance only for the purpose of entering the American market and competing in TRW Automotive’s home market.

A third measure would reflect the partners’ agreement with respect to the exchange of technologies and skills between them in order to ensure an equitable gain. In this sense, a solution would be to conclude licensing agreements.

As a fourth measure to protect the firm from the risk of an opportunistic partner is to obtain in advance its partner’s credible and firm commitment. An example in this respect would be the Fuji and Xerox alliance to build photocopiers for the Asian market where a fifty/fifty joint venture was proposed and sustained by Xerox to cover East Asia and Japan. This alliance involved on Fuji’s side a great investment in people, facilities and equipment that made it work and gave the opportunity of earning a return on its investment. Fuji, by accepting the joint venture, contributed in a credible way to the alliance which then eased the transfer of photocopier technology from Xerox to Fuji.

f) Managing the alliance

Once a firm has selected a partner and the parties have agreed on an appropriate alliance structure, the task facing each is to maximize the benefits it gains from the alliance. As in all international business deals, an important factor is sensitivity to cultural differences. Many differences in management style are attributable to cultural differences, and managers need to make allowances for these in dealing with their partner. Beyond this, maximizing the benefits from an alliance seems to involve building trust between partners and learning from partners.

Managing an alliance successfully requires building interpersonal relationships between the firms’ managers, or what it sometime referred to as relational capital. This is one lesson that can be drawn from a successful strategic
alliance between Ford and Mazda. The two companies set up a framework of meetings within which their managers not only discuss matters pertaining to the alliance but also have time to get to know each other better. The belief is that the resulting friendship helps build trust and facilitate harmonious relations between the two firms. Personal relationships also foster an informal management network between the firms. This network can then be used to help solve problems arising in more formal contexts (such as in joint committee meetings between personnel from the two firms).

Academics have argued that a major determinant of how much knowledge a company gains from an alliance is its ability to learn from its alliance partner. C.K. Prahalad, Yves Doz and Gary Hamel in a 5 year study of fifteen strategic alliances have concentrated on those between Western American and European companies and Japanese partners. The importance placed on studying from other party appeared to be greater for the Japanese partners than for their Western ally. It also resulted that the Western partners are more willing just to share the risks and costs associated with the alliance than to actually study the manner the business is run by a possible competitor.

Another example would be the GM (General Motors) – Toyota alliance to build the Chevrolet Nova where this was set up as a joint-venture with a 50:50 stake and owning a Californian auto plant. In this alliance, the Japanese partner rapidly attained a great part of their goals as expressed by one of its management representatives: “We learned about US supply and transportation. And we got the confidence to manage US workers.” The transfer of this knowledge was then employed for the new Toyota plant they have opened in Georgetown while GM apparently only gained the new car, the Chevrolet Nova. According to some of the management representatives at GM, the knowledge they have gained through the alliance has not been taken advantage of. They could have taught GM employees on the Japanese system, rather they were all located in different subsidiaries of GM.

A firm should apply the knowledge acquired from its partner inside its own structure in order to increase the advantages offered by an alliance. Therefore, all its employees should be informed with respect to the partner’s attributes and the benefits that can be derived from the future alliance in terms of competitiveness. Prahaland, Doz and Hamel mention in their study that this is a common practice for the Japanese companies and note: “We accompanied a Japanese development engineer on a tour through a partner’s factory. This engineer dutifully took
notes on plant layout, the number of production stages, the rate at which the line was running, and the number of employees. He recorded all this despite the fact that he had no manufacturing responsibility in his own company, and that the alliance did not encompass joint manufacturing. Such dedication greatly enhances learning.”

The benefits of such learning can be gained through its dissemination within the entire organization, which apparently was not the case for GM following the joint-venture. For the learning to be disseminated, involvement of management representatives is required so that the other employees gain knowledge with respect to the abilities of the alliance partner.

3) Joint ventures

a) Advantages

Joint ventures have a number of advantages. First, a firm benefits from a local partner’s knowledge of the host country’s competitive conditions, culture, language, political systems and business systems. Thus, for many US firms, joint ventures have involved the US company providing technological know-how and products and the local partner providing the marketing expertise and the local knowledge necessary for competing in that country. Second, when the development costs or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner. Third, in many countries political considerations make joint ventures the only feasible entry mode (for an example, this was the case with JCB’s entry into India). Research suggests joint ventures with local partners face a low risk of being subject to nationalization or other forms of adverse government interference. This appears to be because local equity partners, who may have some influence on host-government policy, have a vested interest in speaking out against nationalization or government interference.

b) Disadvantages

Despite these advantages, joint ventures have major disadvantages. First, as with licensing, a firm that enters into a joint venture risks giving control of its technology to its partner. Thus, a proposed joint venture in 2002 between Boeing and Mitsubishi Heavy Industries to build a new wide-body jet raised fears that Boeing might unwittingly give away its commercial airline technology to the Japanese. However, joint venture agreements can be constructed

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to minimize this risk. One option is to hold majority ownership in the venture. This allows the dominant partner to exercise greater control over its technology. But it can be difficult to find a foreign partner who is willing to settle for minority ownership. Another option is to “wall-off” from a partner technology that is central to the core competence of the firm, while sharing other technology.

A second disadvantage is that a joint venture does not give a firm the tight control over subsidiaries that it might need to realize experience curve or location economies. Nor does it give a firm the tight control over a foreign subsidiary that it might need for engaging in coordinated global attacks against its rivals. Consider the entry of Texas Instruments (TI) into the Japanese semiconductor market. When TI established semiconductors facilities in Japan, it did so for the dual purpose of checking Japanese manufacturer’s market share and limiting their cash available for invading TI’s global market. In other words, TI was engaging in global strategic coordination. To implement this strategy, TI’s subsidiary in Japan had to be prepared to take instructions from corporate headquarters regarding competitive strategy. The strategy also required the Japanese subsidiary to run at a loss if necessary. Few if any potential joint-venture partners would have been willing to accept such conditions, since it would have necessitated a willingness to accept a negative return on investment. Indeed, many joint ventures establish a degree of autonomy that would make such direct control over strategic decisions all but impossible to establish. Thus, to implement this strategy, TI set up a wholly owned subsidiary in Japan.

A third disadvantage with joint ventures is that the shared ownership arrangement can lead to conflicts and battles for control between the investing firms if their goals and objectives change or if they take different views as to what the strategy should be. This was apparently not a problem with the Fuji-Xerox joint venture. According to Yotaro Kobayashi, currently the chairman of Fuji-Xerox, a primary reason is that both Xerox and Fuji Photo adopted an arm’s-length relationship with Fuji-Xerox, giving the venture’s management considerable freedom to determine its own strategy. However, a great deal of research indicates that conflicts of interest over strategy and goals often arise in joint ventures. These conflicts tend to be greater when the venture is between firms of different nationalities, and they often end in the dissolution of the venture. Such conflicts tend to be triggered by shifts in the relative bargaining power of venture partners. For example, in the case of ventures between a foreign firm and a local firm, as a foreign partner’s knowledge about local market conditions increases, it depends less on the expertise of a local
partner. This increases the bargaining power of the foreign partner and ultimately leads to conflicts over control of the venture’s strategy and goals. Some firms have sought to limit such problems by entering into joint ventures in which one partner has a controlling interest.

4. **Wholly owned subsidiaries**

In a wholly owned subsidiary the firm owns 100 percent of the stock. Establishing a wholly owned subsidiary in a foreign market can be done in two ways. The firm either can set up a new operation in that country, often referred to as a greenfield venture, or it can acquire an established firm in that host nation and use that firm to promote its products. For example, as we saw in the Management Focus, ING’s strategy for entering the US market was to acquire established US enterprises rather than try to build an operation from the ground floor.

a) **Advantages**

Wholly owned subsidiaries have several clear advantages. First, when a firm’s competitive advantage is based on technological competence, a wholly owned subsidiary will often be the preferred entry mode because it reduces the risk of losing control over that competence. Many high-tech firms prefer this entry mode for overseas expansion (e.g. firms in the semiconductors, electronics, and pharmaceutical industries). Second, a wholly owned subsidiary gives a firm tight control over operations in different countries. This control is necessary for engaging in global strategic coordination (i.e. using profits from one country to support competitive attacks in another).

Third, a wholly owned subsidiary may be required if a firm is trying to realize location and experience curve economies (as firms pursuing global and transnational strategies try to do). When cost pressures are intense, it may pay a firm to configure its value chain in such a way that the value added at each stage is maximized. Thus, a national subsidiary may specialize in manufacturing only part of the product line or certain components of the end product, exchanging parts and products with other subsidiaries in the firm’s global system. Establishing such a global production system requires a high degree of control over the operations of each affiliate. The various operations must be prepared to accept centrally determined decisions as to how they will produce, how much they will produce, and how their output will be priced for transfer to the next operation. Because licensees or joint-venture partners are unlikely to accept such a subservient role, establishing wholly owned subsidiaries may be
necessary. Finally, establishing a wholly-owned subsidiary gives the firm 100 percent share in the profits generated in a foreign market.

b) Disadvantages

Establishing a wholly owned subsidiary is generally the most costly method of serving a foreign market from a capital investment standpoint. Firms doing this bear the full capital costs and risks of setting up overseas operations. The risks associated with learning to do business in a new culture are less if the firm acquires an established host-country enterprise.
IV. **Comparative analysis: Would a joint-venture be recommended or a wholly owned subsidiary?**

With the relentless onslaught of globalization, many firms are faced with the question of where and how to launch their operations in world markets or to expand and integrate their existing international operations. Some are seeking new outlets for their products and know-how outside their home markets while others are seeking expansion capital and new technology not available in their own countries. In order to achieve these goals, a firm must determine the appropriate mode for organizing its foreign business activities. Among the vast array of alternative modes available, international joint ventures (IJV) and wholly owned subsidiaries (WOS) represent two primary but largely competing strategic options that a firm may choose. Each of these strategies has different implications for the degree of control which a firm can exercise over the foreign operation, the resources it must commit to the foreign operation, and the risks that it must bear to expand into a foreign country. Thus, the performance of one mode in relation to another is a critical measure of its relative efficacy and would directly affect their choice by firms⁷.

In the current global marketplace, strategic alliances in the form of international joint ventures have become a popular mode for entering foreign markets. Traditional direct investment methods, such as setting up wholly-owned subsidiaries, offer the benefits of total profits and full control over the foreign subsidiary. However, the higher costs and risks involved in undertaking R&D, production, financing and market penetration brighten the prospects for expanded strategic alliances between global companies as top management believes that no organization alone can manage all of the high risks associated with transnational ventures. In general, the purpose of an IJV is to put together complementary resources of already existing firms. Thus such resources normally comprise not only "ordinary" financial, technical, human resources, but also "acquired" resources like goodwill, know-how, team spirit and other intangible assets.

Chowdhury (1992) compared the efficacy of WOSs and IJVs on a number of dimensions. If the entry modes were judged by either exit rate or duration of active life (longevity), IJV’s performance appeared to be better than WOS's. This result seems to contradict numerous other previous research findings which state that, in absolute tens, the instability or failure rate of IJV’s is high (Beamish, 1988; Killing, 1982). Chowdhury argued that the basis for such

⁷ Peng S. Chan, International joint ventures vs. wholly owned subsidiaries, Multinational Business Review, Spring 1995, pag. 1
contradiction depends on how the instability is defined. If a major change in ownership status among active subsidiaries is the operational measure of instability, then the impression that IJVs are relatively more unstable than WOS is entirely borne out. But if exit rate were used as the operational measure of instability, then the WOS option does not seem to have any overwhelming advantage over IJV forms. The reason is that multinational companies tend to terminate IJV operations as they gain greater experience in their foreign market. Some multinational companies would attempt to acquire a larger proportion of ownership to get full control of that venture. Others might choose to establish new WOS. We should not, therefore, judge IJV performance based on such changes in ownership.

In addition, Chowdhury found that WOS appear to be slightly superior in terms of export level. However, this result occurred only in young subsidiaries. Such advantage erodes as the subsidiaries grow older. Finally, Chowdhury concluded that WOS offers the multinational companies an advantage in terms of maintenance of effective control over its subsidiaries. The study indicated that WOSs were more integrated with their parent system than IJVs were. Among the IJV forms, the co-owned (50/50) mode was the most integrated while the minority IJVs were the least integrated.

Hill, Hwang and Kim (1990) examined the choices of international entry mode using an eclectic theory. They identified three underlying constructs that influence the entry mode decision, control, resource commitments, and dissemination risk. The study found that firms which use a "multidomestic" strategy favour licensing or IJV as the mode of entry since these represent low-cost strategies for entering foreign markets. On the other hand, firms that pursue a truly global strategy tend to prefer a high control mode, namely, WOS. Achieving coordination within the context of an interdependent global manufacturing system necessarily requires a high degree of control over the operations of different national affiliates. Moreover, it was found that when the country risk is high, multinational companies will favour IJV or licensing because they involve relative low resource commitments. Similarly, when the demand is uncertain and the volatility of competition in the host market is high, multinational companies will favour entry modes that involve low resource commitments, such as licensing and IJV. On the other hand, if a firm perceives high quasi-rent generated by the firm's proprietary knowledge, it will favour WOS in order to minimize its
dissemination risk. In other words, the greater the tacit component of firm specific know-how, the more a firm will favour a high control entry mode.

Although IJV has been regarded as an optimal choice by many, prior research has not shown which of these two strategic options result in better performance for the parent corporation. Hence, a first hypothesis: Multinationals which enter foreign markets by IJV will outperform those that enter foreign markets by WOS.

A second hypothesis could concern the impact of the two strategic modes on the parent corporation's R&D expenditure. The theory on the motivation for selecting the IJV strategy suggests that IJVs can be expected to substitute for a firm's internal R&D activity since the parties can benefit by implementing joint R&D activities (Berg, Duncan and Friedman, 1993). The argument is that joint R&D can provide two elements of economic value to the IJV participants, that is, risk reduction and reduction in time lag for the introduction of new products. These are important issues for industries in which new products or improvements of existing products are critical to the firm's survival. Firms with low productivity are seeking new technology from outside or attempting to find the right partner with whom to share R&D costs. On the other hand, firms with high productivity are seeking new markets to consume their technological innovations before they become obsolete, thus spreading the risk of introducing their new products. The difference in ability or difference in risk aversion can lead to an R&D substitution effect (Bowman, 1980). If this theory is true, we should observe lower R&D spending for firms which engage in IJV compared to those which engage in WOS.

A third hypothesis can be stated as follows: Firms that engage in IJV are significantly different from those that engage in WOS in terms of their size and degree of multinational involvement. In other words, large multinational companies with high degrees of multinational involvement tended to select IJV as a strategy for entering foreign markets instead of opening up their own subsidiaries.

When comparing the performances of firms participating in IJV to those participating in WOS, the findings indicate that these two kinds of firms are not significantly different from each other. The IJV strategy might equally perform or even underperform the WOS strategy. Such evidence tends to contradict standing theory which argues that
because of the tremendous advantages that IJV has to offer to multinationals, it is the most appropriate strategy for entering foreign markets (Lei, 1989).

The first explanation why an IJV might not outperform a WOS is that the implementation of the former strategy may be problematic. The principal drawback of an IJV, as attested by many of the world's business leaders and managers, is the artificial and uneasy atmosphere created by trying to combine the resources and the management approaches of two separate companies in one enterprise. In an IJV, two management teams with different nationalities, backgrounds, experiences, abilities, and perhaps objectives, are asked to cooperate, to pursue a common goal, to agree on common means and to work under the same authority. These factors might create problems in the day-to-day operation and the future planning for the joint venture, thus creating an adverse effect on the performance of the IJV. This kind of problem can be avoided if the multinational enters a foreign market via WOS since it will have full control over its foreign subsidiary. However, this is not to suggest that a firm should not consider IJV as a viable strategy for entering new markets, only that it should remain cognizant of the inherent and potential difficulties involved in implementing the IJV. In spite of these difficulties, managers would be wearing blinders if they were to ignore the opportunities presented by inter-firm cooperation. If the innovative capabilities of corporations could be greatly enhanced by IJV, potential negative impacts are likely to be balanced or even outweighed. If partners share objectives and trust in advance, and carefully negotiate ownership and management requirements, then the IJV can survive and prosper.

It was found that firms that engaged in IJVs tended to be larger than those that engaged in WOSs. One plausible explanation for this is that a large company which pursues a "multidomestic" strategy is often more likely to use an IJV strategy because of the belief that national markets differ widely with regard to consumer tastes and preferences, competitive conditions, operating conditions, and political, legal, and social structures. IJV, thus, is the most appropriate entry strategy since it creates more flexibility for adapting the operation to meet the requirements under different competitive conditions.

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1 Peng S. Chan, International joint ventures vs. wholly owned subsidiaries, Multinational Business Review, Spring 1995, pag. 8
In the midst of continuing controversy over the correct choice of international entry strategies, it could be said that if IJV partners share objectives and trust in advance, and carefully negotiate ownership and management requirements, then the IJV will have a good chance to survive and prosper.

Firms that engaged in IJV tend to be larger and have a greater number of foreign subsidiaries than those that follow the WOS strategy. The implication here is that large multinationals tend to embrace the philosophy of diversification. They tend to choose IJV as a means of holding an efficient portfolio of investment. The underlying premise is that if the firm could gain competitive advantages by entering a foreign market via IJV, it will have enough resources to diversify its operations into many countries rather than invest fully in one or a few subsidiaries.

Empirical studies have usually focused on firm-specific variables and country-specific variables in their approach to the theoretical notions of factors determining different types of investment. Listed in Table 1 (page 41) are the variables that have produced the best explanatory results.

To conclude, a firm may prefer to invest through a WOS in the following conditions:
1. It possesses very specific assets, or assets with great potential for generating profits. In this case, an investing firm may prefer to protect itself against possible opportunistic behaviour by a partner using firm’s assets to pursue its own interests. Moreover, the firm would prefer not to have to share the potentially high revenues that its assets may generate.

2. It possesses tacit assets related to the firm internally and its organization, which cannot be easily transmitted to an external partner. In this case, a WOS is preferable to a JV, irrespective of the possible transaction costs attached.

On the other hand, a firm may prefer to invest through a JV in the following situations:
1. The firm needs to share risks (for instance, important when a host country is economically and/or politically unstable).

2. The firm needs additional resources to invest abroad.

3. The firm needs to be supplied with complementary knowledge by a partner (for instance, when a firm does not have adequate trade experience or country-specific experience, or when the host country is perceived to be very different to the home country). This kind of knowledge is very difficult to obtain in the marketplace due to the associated high transaction costs.
V. Conclusions

Joint venture relationships are, on average, fragile affairs, difficult to negotiate and, once negotiated, to hold together. Although the reasons for breakdown may differ substantially between countries and between different types of partners, the pattern of frequent joint venture dissolution seems to a global occurrence. This study has suggested a number of methods that might be used in reducing the probability of relationship difficulties among new partners. This is important, because joint ventures are becoming more and more common in developing countries as economic growth continues to take place more rapidly in these countries than in the industrial world. The contribution of these joint ventures to the development process is contingent upon their success as viable and ongoing business enterprises.

Joint venture relationships should be determined much more by complementarities that will continue to exist between the respective organizations. These complementarities, together with a careful matching of corporate cultures, are the most promising focus of the search process.

Even for partners who have had experience with one another, the agreement specifies terms of a relationship that is normally anticipated to go on for many years. While it is certainly true that no agreement can substitute for partners who are deeply committed to making the joint venture work, even committed partners can be expected to have conflicts of interest. Negotiating a suitable agreement, therefore, is a vital component of a successful relationship.

The joint venture agreement is best considered as a "living" document in the sense that among its provisions are procedures to amend or change the agreement itself. Rigid documents can themselves become the source of friction, and partners need to have confidence that if disagreements arise, there are clear procedures in place to allow further negotiations and reconciliation.

Partners need to realize at the outset that their respective comparative advantages in establishing the joint venture may change over time. Joint ventures are, after all, power relationships. Therefore, wise partners make sure that their companies are vital to the joint venture's success over the long-run. It is not sufficient for firms to depend on their
intimate knowledge of government affairs or familiarity with local financial markets for continuing relevance in the joint venture, since these contributions are bound to erode. More substantive advantages are required: control of distribution channels, access to continuing sources of technology, control of export channels, etc. Satisfaction with a JV's performance is likely to have more to do with the ability of the partners to adapt to changing circumstances and to maintain mutual respect than to any formal aspect of the joint venture itself.

Technology transfer is one of the more sensitive and difficult issues confronting joint ventures’ managements. It is a topic, therefore, that deserves detailed attention by both parties during negotiations, and clear and complete provisions are best included in the agreement. The problem for developing country firms is that technology also is an area where they have least control over the actions of their industrial country partners and, therefore, implicitly have to rely on trust. Although agreement provisions are important in setting out an operational framework for technology use in the joint venture, it is one area where formal provisions cannot substitute entirely for good will and understanding between partners.

Agreements need to contain fairly detailed provisions covering dispute resolution and, in the event of failure to reconcile differences, the exit mechanism to be employed in terminating the joint venture. Such matters should not be avoided in the belief that good relations will be maintained over the life of the joint venture or that thinking about disputes at the outset somehow is tantamount to assuring that disagreements will ensue.

Correctly structured between two or more partners with sustainable complementarities, joint ventures can be advantageous to all sides. Mutual trust and respect among the partners is important to such relationships, but so too is attention to maintaining compatible corporate goals and to assuring that the joint venture business continues to depend importantly on contributions from all partners.
APPENDICES
Figure 1. Global FDI Quarterly Index, 2000 Q1–2009 Q3
(Base 100: quarterly average of 2005)

Source: UNCTAD.
Figure 2. Cross-border M&A sales and international greenfield projects, 2007 Q1 - 2009 Q4

Source: UNCTAD, cross-border M&A database for M&As; and information from the Financial Times Ltd. FDi Markets (www.FDiMarkets.com) for greenfield projects.

Note: Data on greenfield projects for 2009:Q4 are estimates based on available figures for October and November.
FIGURE 3

Global indicators¹ (Annual percent change unless noted otherwise)

Source: IMF staff estimates.
¹Shaded areas indicate IMF staff projections. Aggregates are computed on the basis of purchasing-power-parity (PPP) weights unless noted otherwise.
²CEE: central and eastern Europe; CIS: Commonwealth of Independent States.
³Simple average of spot prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil.
FIGURE 4

Emerging market conditions


1Morgan CEMBI Global Index spread.
2Morgan CEMBI Broad Index spread.
3Total of equities, syndicated loans, and international bond issues.
4Annualized percent change of three-month moving average over previous three-month moving average.
FIGURE 5
Average Real GDP Growth during 2010-11
<table>
<thead>
<tr>
<th>Variables</th>
<th>Value</th>
<th>Authors</th>
</tr>
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