MULTINATIONAL JOINT VENTURES IN DEVELOPING COUNTRIES

Paul W. Beamish

MULTINATIONAL JOINT VENTURES IN DEVELOPING COUNTRIES

Paul W. Beamish

ROUTLEDGE
London and New York

First published in 1988 by
Routledge
11 New Fetter Lane, London EC4P 4EE

Published in the USA by
Routledge
in association with Routledge, Chapman & Hall, Inc.
29 West 35th Street, New York NY 10001

Typeset by Pat and Anne Murphy,
Highcliffe-on-Sea, Dorset.
Printed in Great Britain
by Billings & Sons Limited, Worcester.

British Library Cataloguing in Publication Data

Beamish, Paul W.
Multinational joint ventures in developing countries. — (Croom Helm series in international business).
1. International business enterprises — Developing countries 2. Joint ventures — Developing countries
I. Title II. Series
338.8'881724 HD2932
ISBN 0-415-00394-6

Library of Congress Cataloging in Publication Data

ISBN 0-415-00394-6

Preface

True to the spirit of joint venturing, this book is a collaborative effort in many respects. Half of the chapters are based on articles written with five different colleagues — Henry W. Lane at the University of Western Ontario, Jean-Louis Schaan at the University of Ottawa, John C. Banks at Wilfrid Laurier University, Hui Wang from the People's Republic of China and Terrance W. Conley at the Toronto Law firm of Blake, Cassels and Graydon. These joint efforts, plus those chapters which I wrote alone, have been updated since their original publication. All the material is post-1985.

Integrating the articles into a coherent chapter format did not present major problems thanks to word processing technology and Elsie Grogan, Susan Kirkey and Maureen Nordin.

The first draft of a portion of this book was my dissertation, completed in 1984. I am well aware that when many people finally finish their dissertations, the last thing they want to write about or research further is their thesis topic. This was not the case for me. When Alan Rugman (now at the University of Toronto) approached me in 1984 about writing a book on joint ventures, I was enthused. As Chapter 1 notes, JVs are an organisational form whose time has come — and for many good reasons.

Having worked in the area of joint ventures for over five years, I have received much useful assistance and direction. In addition to help from my co-authors, Tom Poynter (now at MIT) provided feedback on endless early versions of much of the material. That he did this without complaint, speaks highly of his patience. Louis T. Wells at Harvard provided suggestions on organising the early materials, and was the first to point me in the direction of tying my work to the theory of the MNE.

Peter Killing has been a source of constant encouragement ever since I 'mentioned' more than a decade ago, my possible interest in graduate studies. His work serves as an important reference point, both to myself and to many other joint venture researchers. In my view, this present book on MNE joint ventures in LDCs could serve as a companion text to his book *Strategies for Joint Venture Success*, which focused on MNE

joint ventures in developed countries.

Executives in Canada, the United States, the United Kingdom and several Caribbean countries were unstinting in the amount of time they allowed to discuss joint ventures. The list of executives is both too long to note here and would in some instances violate their preference for confidentiality. Nonetheless, I would like to acknowledge the help of three individuals in particular, who were paid more than one visit — Bill Shurniak from CIBC (now at Hutchison-Whampoa), Richard Gould from Canada Wire and Cable, and Ken Boyea from Maple Leaf Mills. In many ways, the co-authors of this book could well be the nearly 100 managers with whom I have discussed joint ventures.

Financial support was provided by the Plan for Excellence and the Centre for International Business Studies, School of Business Administration, University of Western Ontario. As well, Wilfrid Laurier University provided travel support which enabled me to present earlier drafts of some of these chapters at conferences and meetings in Canada, the United States, Europe and Hong Kong.

My wife Maureen 'kept the home fires burning' at the expense of her own career whenever I was away. I am grateful for this. Finally, this book is dedicated to my parents, John and Catherine Beamish who, by example, have always urged me to persevere in any worthwhile endeavours.

London and Waterloo
Ontario, Canada

Paul W. Beamish

Contents

Tables

1

Introduction

1.1 IMPORTANCE OF JOINT VENTURES

Joint ventures, not wholly-owned subsidiaries, are the dominant form of business organisation for multinational enterprises (MNEs) in less developed countries (LDCs) (Vaupel and Curhan, 1973), and are frequently being used by Fortune 500 companies in the developed countries (Harrigan, 1985). In fact, for US-based companies, all cooperative arrangements (involving such things as licences or local shareholders) outnumber wholly-owned subsidiaries by a ratio of four to one (Contractor and Lorange, 1987).

The number of joint ventures is growing worldwide at an increasing pace. *Mergers and Acquisitions* (1983) reported a 59 per cent increase between 1981 and 1983 in the number of international joint ventures involving US firms. Active joint venturers include General Motors, Dana, Eaton, Beatrice, Pillsbury, Carnation, Borden and Control Data Corporation. Besides being major players in their respective industries, each operates anywhere from five to 20 joint ventures in developing countries. And these are not just any type of joint venture — in none of the 71 LDC-based joint ventures of these eight American firms do they have a majority equity interest (Franko, 1986).

Yet, given the relative importance of joint ventures in LDCs, it is surprising to find a negligible amount of research into ways of improving their performance. This is particularly significant since the limited literature on joint ventures suggests that performance problems are more acute in developing rather than developed countries (Janger, 1980; and Franko, 1976). Over 100 nations are classified as developing countries. These potential markets are too big to ignore. For example, total GNP for Brazil exceeds that of Canada, or Norway, Sweden, Denmark and Finland combined; Nigeria's GNP exceeds that of Austria; Mexico's GNP exceeds that of Switzerland (Matthews and Morrow, 1985). Japanese and North American companies are not ignoring them. Existing and potential investment in these countries is substantial. Knowing how to operate successfully in these countries can be a problem, however.

The purpose of this research is to address the question of how the performance of joint business ventures in developing countries can be improved. Frequent performance problems of joint ventures in LDCs are an important issue for both MNE and host-country interests. Performance difficulties are costly for the MNE in time and capital. In addition, although the research does not emphasise it, there are also social costs to the host country when joint ventures experience difficulties or fail (Casson, 1979).

Organisations such as the United States Agency for International Development, the Canadian International Development Agency (CIDA) and the World Bank have recently been encouraging greater private sector involvement in developing countries. Much of the focus of the development agencies has been on the use of joint ventures, since joint ventures are a proven mechanism for transferring technology from the industrialised countries to LDCs. Not surprisingly, a number of government programmes have been established to assist in setting up joint ventures in LDCs. For example in Canada, CIDA activities have included the publication of a guide on how to establish a successful international joint venture, and the setting up of an industrial cooperation programme to assist financially in the promotion of mutually profitable business relationships between Canadian companies and their developing country counterparts.

By creating viable joint ventures in LDCs, international development can be speeded up. However, given the declining share of direct investment flows from the industrialised countries to LDCs (Robock and Simmonds, 1983), the costs of joint venture failure in LDCs are magnified.

Other researchers have independently examined joint ventures in developing countries, joint ventures in developed countries, and joint-venture performance. This research combines several of these elements by focusing in depth on the performance of joint ventures in developing countries. (The distinction used for developed/less developed countries is: 1978 *per capita* GNP over/under US $3,000. Based on World Bank figures, nearly three-quarters of the world's nations would be classed as LDCs.)

In this research, joint ventures are defined as shared-equity undertakings between two or more parties, each of which holds at least five per cent of the equity. The research is concerned with joint ventures that have been formed between a company, group or individual from a developed country with a similar entity in a less developed country. While such groups can and do include local governments as partners, the focus of the research is on joint ventures in which the local government is not a shareholder. None of the core ventures involves government partners. The importance of focusing on this particular form of foreign equity investment is supported by recent research on US multinational enterprises in developing countries: 'Both US MNEs and host-country executives believe that a joint venture with a private local firm offers more advantages when compared with any other form of foreign equity investment for the US MNE and the host country' (Raveed and Renforth, 1983). Inclusion in the study required that the venture be in manufacturing (rather than services, mining or distribution) and to have been in operation for at least three years (whether it still operated or not). Non-manufacturing ventures are excluded because mixing joint ventures in a sample where the scale of investment is commonly much higher (mining) or lower (distribution) could potentially affect the joint-venture decision process. Because many joint ventures never get off the ground, those firms which had been fully operating businesses for less than three years are also excluded, to increase the comparability of the sample.

The most common partner for MNEs in LDCs is a local private firm. Other partner combinations are not included in the sample because they are either not typical (i.e. two MNE partners in an LDC) or because the partners might not share the same profit motivation (i.e. government partners being more concerned with employment than profitability). Also excluded from the study are one-shot, project-oriented ventures (sometimes known as fade-out joint ventures) and ventures in which the parent company views its involvement principally as a portfolio-like investment.

Incorporated into this research are modifications to other researchers' methodologies and emphases. For example, previously used proxies for joint-venture performance, such as stability, are improved upon, and emphasis is extended beyond the more common examination of ownership/control influences on performance by introducing the concepts of joint need and commitment. In addition, these latter variables are related to performance using improved data collection and analysis procedures.

1.2 KEY VARIABLES

The largest part of this research investigates the effect on joint-venture performance of two variables to which other researchers have paid limited attention — need and commitment. It is hypothesised that greater need and commitment between partners results in more satisfactory performance.

Following a series of pilot-survey interviews, the potential impact of these variables upon performance emerged. In the subsequent focus on these variables, partner-need was assessed over a span of time in terms of the relative importance of each partner's contribution to the joint venture in a number of aspects such as capital, knowledge and staff. Joint-venture commitment was assessed in terms of the firm's commitment to international business, the joint-venture structure, the particular venture and the particular partner. Measures of need and commitment based on the early interviews and literature reviews are developed. The literature examined included both joint-venture and international business literature, and literature adapted from other disciplines such as organisational behaviour and management-information systems. These other disciplines are specifically examined for assistance in defining and measuring commitment. The need and commitment results are combined to form a managerial guideline for the establishment of successful joint ventures in LDCs.

The dependent variable — joint-venture performance — is defined according to whether there was mutual agreement between the partners regarding their overall satisfaction. The performance measure, with its basis in both partners' being satisfied, proved to be a better way of evaluating performance than the single-perspective measure used by other researchers, in which only the MNE partner's view is considered. Because partners sometimes differ in their assessment of performance, other measures of joint-venture performance are not as accurate. Emphasis on ensuring the long-term viability of the venture underlies the discussion of success in this research. Seven of the twelve core ventures classed as satisfactory performers use this system.

The research also investigates the effects of a number of independent variables, (e.g. ownership, control) considered important by researchers examining joint-venture performance primarily in developed countries. Investigation of their effect upon performance represents a replication of the work of other researchers, to some extent, although on what was considered to be a different population of joint ventures — those in developing countries.

1.3 OVERVIEW OF CONCLUSIONS

The principal conclusions of the research are noted below in the order in which they were derived. This order is also maintained in subsequent material — with the exception of the research methodology, presented in the section following. In considering methodology, the research question, the research design employed and the data collection process are detailed.

The first conclusion (Chapter 2) notes that characteristics of joint ventures in LDCs differ from those in developed countries. These characteristics — assessed in terms of stability, performance, ownership, reason for creating the venture, frequency of government partners and autonomy — were observed to differ following an analysis of, and comparison with, developed-country joint-venture samples.

This research suggests next that decision-making control in joint ventures in developing countries should be shared with the local partner, or split between the partners. There was support for the observation that there is a weakening of the link between joint-venture performance and the multinational having dominant management control, when one considers developing, rather than developed, countries.

Two important conclusions in Chapters 3 and 4 are that both partner need and commitment prove to be good predictors of both satisfactory and unsatisfactory joint-venture performance. For example, there is a positive association with performance of

MNEs using local management, being willing to use voluntarily the joint venture structure, and looking to the local partner for knowledge of the local economy, politics and customs.

In Chapter 5 a management guideline for implementing an existing or potential joint-venture strategy is provided. The data on which this chapter is based come from joint ventures in Latin America, Africa, Southeast Asia and the Caribbean region. The co-authors were able to interview both parties to the joint ventures and their general managers in a number of situations. The information was collected by a variety of means: experience, case research, structured interviews and questionnaires. Lane was involved in the formation of a joint venture in Africa and has conducted extensive case research on joint ventures and cross-cultural management in Latin America and Southeast Asia.

Chapter 6 examines the role of the joint venture general manager (JVGM). It draws extensively on Jean-Louis Schaan's original research on joint-venture control in Mexico. The JVGM plays a critical role in the successful operation on any joint venture, but has frequently been the forgotten person in joint-venture research.

Chapter 7 concludes that the joint-equity ventures do have a role in the theory of the multinational enterprise. With few exceptions, the theory has considered joint ventures as limited-term, contractual arrangements. As risky as joint ventures might be, there are conditions under which they are most appropriate for MNEs investing in foreign countries.

Chapters 8 and 9 look at joint ventures in a different group of developing countries, those with non-market economies. This study of joint ventures in China is based on new data, and lays particular emphasis on legal implications and the separating of fact from fiction regarding this market.

The appendices provide partial lists of firms contacted, as well as joint-venture management case studies.

1.4 METHODOLOGY

Data were collected by Beamish (1984) in three stages on a total of 66 joint ventures located in 27 LDCs. Within the third stage, particular emphasis was placed on twelve comparative core cases. Interviews were conducted with, and questionnaires administered to, the local partner, MNE partner, and joint-venture general manager (where possible) in each of these core ventures. This attempt to solicit information from both partners and the general manager for each venture represents a major point of departure from many previous works on joint-venture performance. This is important because it provides a more balanced picture of the actual operation of the joint venture and increased confidence in the research findings.

The questionnaires administered in the core ventures lent themselves to non-parametric statistical analysis of data. Although questionnaire findings from the twelve core ventures are emphasised, they are supplemented by interview comments from 46 senior executives in 66 joint ventures.

Table 1.1: Data collection

Data collection phases (number of interviews)	Joint ventures in the Caribbean countries	Joint ventures in non-Caribbean LDCs	Total number of joint ventures
1) Pilot survey (7)	3	31	34
2) Pre-test (12)	0	10	10
3) Test (27)	17	5	22[1]
Total (46)	20	46	66

Note: 1. Complete data (from all partners) were available for twelve of these ventures.

Interviews were conducted in five countries — Canada, the United States, the United Kingdom and two Caribbean nations. The 46 interviews averaged more than three hours in length each, and were, with five exceptions, conducted in person; the other five took place by telephone.

Over 100 executives were contacted in obtaining the 46 interviews. A larger original pool was required because of the need to find joint ventures that satisfied methodological constraints. Companies agreed to participate in the research in approximately 90 per cent of cases where the interviewer was able to establish that the companies' venture fitted the sample design. These core ventures were all between either American, British, or Canadian MNEs and local, private firms. Ten of the twelve joint ventures were located in the Caribbean, with most of these in a single country. The core ventures were concentrated in two