

**A CONTRIBUTION TO THE STUDY  
OF JOINT VENTURES IN  
ASIA PACIFIC**

**by**

**P. LASSERRE\***

**97/14/ABA**

\* Professor of Strategy and Management at INSEAD-EAC, Boulevard de Constance, Fontainebleau 77305 Cedex, France.

A working paper in the INSEAD Working Paper Series is intended as a means whereby a faculty researcher's thoughts and findings may be communicated to interested readers. The paper should be considered preliminary in nature and may require revision.

Printed at INSEAD, Fontainebleau, France.

# **A Contribution to the Study of Joint Ventures in Asia Pacific**

Philippe Lasserre  
Professor of Strategy and Management  
INSEAD Euro-Asia Centre

Entering and developing a presence in the Asia Pacific region has required, and, in most cases still requires, the setting up of joint ventures with a local partner particularly when the prime motive of the operation is to capture the opportunities of local markets. Although over the past few years, the legislation of the various Asian countries has evolved in a more liberal way, there is still strong pressure for entering into joint venture agreements. Besides legal obligations, joint ventures can be justified for competitive reasons when the foreign investors do not possess the required capabilities to compete on its own. Joint venturing is a traditional form of international business and has been given a lot of attention in international business literature, particularly from four perspectives.

The first view looked at the theoretical background of the joint venturing process. Either transaction cost theory, (Anderson and Gatignon, 1986; Hennart, 1988), or economic analysis, (Kogut, 1988b; Buckley and Casson, 1988; Beamish and Banks, 1987). From this point of view joint venturing is seen as a mode of coping with market imperfections or information asymmetry.

The second view stressed the role of joint ventures in the globalisation of multinational firms, (Franko, 1971; Stopford and Wells, 1972; Janger, 1980; Killing, 1983; Harrigan, 1985, 1986; Moss Kanter, 1994). The basic argument developed here is that joint venturing is a means to acquire local capabilities in order to enter markets. In such a perspective, the fate of joint ventures is dependant upon the internal management structures and systems of the multinational parent company.

The third view looked at the specific issues related to the stability of international joint ventures whether in developing countries, (Tomlinson, 1970), or elsewhere, (Bleeke and Ernst, 1991; Gomes-Casseres, 1987). In this body of literature there is an attempt to analyse the sources of success and failures of joint ventures, whether it is control, (Schaan, 1983; Geringer and Hebert, 1989; Blodgett, 1992; Yan and Gray, 1994; Makino, 1995), partner selection, (Beamish, 1987), or a set of interrelated factors, (Dymska, 1988).

The fourth stream dealt particularly with the evolution of joint ventures over time, from their inception, (Newman, 1992), their contribution to learning, ( Parkhe, 1991; Inkpen, 1995), or to their motives for termination (Kogut, 1988a).

Given the strategic importance of joint ventures in the Asia Pacific region many students found it relevant to understand the factors influencing their fate and to analyse differences across countries. Joint venturing in Asia has generated a relative large body of literature grouped by country of origin of the Asian partners, either Japanese firms, (Sullivan and Peterson, 1982; Reich and Mankin, 1986; Pucik, 1988; Hamel, Doz and Prahalad, 1989; Turpin, 1993; Inkpen, 1995), Chinese, (Vanhonacker 1992, Sing Keow Hoon-Halbauer, 1994, Campbell, Swierczek, 1994; Ahmed and Li, 1996), South East Asian, (Lasserre, 1986; Thomson, 1996), or Korean, (Levy, 1984).

The present research belongs clearly to the third and fourth stream in terms of the issues addressed with a regional focus centred on the Asia Pacific region.

Its purpose is to address two sets of questions:

First, this research attempts to understand what are the features of joint ventures which make it more or less satisfactory from the point of view of Western managers, and, what generic conclusions can one draw in terms of the preparation and structuring of joint ventures? This part is based on the empirical testing of hypothesis.

Second, this research tries to identify the major differences in joint venture characteristics across countries in the Asia Pacific region. The objective is to draw a profile of the various countries' joint venture environments. This part will be an empirical comparative description of samples grouped by countries.

## **PART I**

### **THE STRUCTURAL DETERMINANTS OF WESTERN SATISFACTION IN ASIAN JOINT VENTURES**

#### **Model Building**

The objective of the first part of this research is to identify the factors which are associated with a satisfactory perception of joint ventures from the point of view of Western managers.

Satisfaction is an indirect and very subjective measure of success. It is an asymmetric assessment since it is analysed only from the point of view of the

foreign Western partner. In measuring success one could try to take objective measures such as return on investment, growth, market share, or, shareholder value. This way of measuring has two pitfalls: first, it is impractical on a large scale, since most companies do not publish their financial or marketing results for their foreign subsidiaries, except, if those are listed on a stock exchange; otherwise they would be reluctant to give such information privately by fear of giving away inside information. Second, those measures would be quite biased and incomplete anyway since in a lot of cases, tax consideration, transfer pricing practices, or, simply competitive secrecy would make the data questionable. It is better, in our view, to ask a set of very subjective questions, knowing that they are subjective, but at least reflecting a real appreciation of satisfaction or dissatisfaction of the people involved in their management.

The model described in Exhibit 1 reflects the hypothesis of this research.

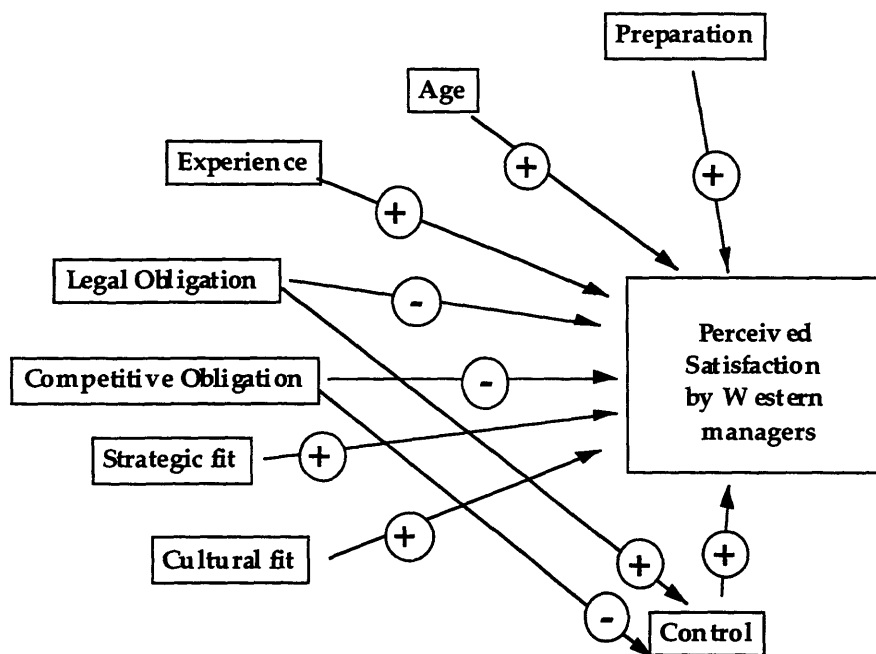


Exhibit 1  
Determinant of perceived satisfaction: hypothetical relationships

### Age

Previous research on the life cycle of joint ventures have shown a decay in the mutual benefit that partners get from their association, (Franko, 1971;

Kogut, 1988a). The joint venture decay can be explained by the exhaustion over time of the learning that partners derive from the partnership, (Lasserre and Schütte, 1995). A local partner looking for technology will progressively learn, while a foreign partner will understand local business practice overtime. The longer the joint venture lasts, the lower the mutual interest, and therefore the lower the satisfaction.

Hence:

*Hypothesis 1:*

*Everything being equal, age of joint venture will show a negative relationship with the perceived satisfaction of Western managers*

### Preparation

The amount of time spent in planning, searching for partners, negotiating an agreement, gives partners the opportunity to analyse the various dimensions of their association. Active and lengthy negotiation can give a hint of the practices of the other party, and therefore giving an opportunity to enter into the joint venture in a better state of information. This aspect has been stressed by Dymsha, (1988), and Newman, (1992). Therefore, this will lead to higher satisfaction.

Hence:

*Hypothesis 2:*

*Everything being equal, the higher the time spent in negotiating and planning the joint venture, the higher the perceived satisfaction by Western managers.*

### Experience

Accumulated experience of joint venturing in Asia will reinforce the ability of companies in dealing with the uncertainties and complexities of structuring and negotiating agreements. In fact it will reinforce the degree of preparation. It is therefore expected that experience will contribute to satisfaction as well as it will be positively associated with the degree of preparation.

Hence:

*Hypothesis 3a:*

*Everything being equal, experience with joint ventures in Asia will be associated with positive perceived satisfaction by Western managers.*

*Hypothesis 3b:*

*Experience and preparation will be positively related.*

## Strategic Fit

Strategic fit under the form of goal congruence, or goal compatibility is almost unanimously recognised as an important success factor in joint ventures. (Harrigan, 1986, Lorange and Roos, 1992, Newman 1992, Dymsha, 1988, Lasserre and Schütte, 1995). Strategic fit exists when the two partners are determined to make the joint venture work for mutual success. It does not exist when one party, at least, is looking at the joint venture as a vehicle for extracting resources from the other partner for its own strategic agenda. In particular, there would be no strategic fit if the local partner was only interested in extracting technology.

Another form of strategic fit exists when the two partners share a common view about the objectives of the venture and about the way to position the business and to compete in the market place. It is expected that strategic fit will be positively related to the satisfaction perceived by the partners and in our case by Western partners.

Hence:

*Hypothesis 4:*

*Everything being equal, strategic fit will be positively associated with perceived satisfaction by Western managers.*

## Cultural Fit

Another form of fit which determines the fate of a joint venture will exist when the partners understand each other and develop some tolerance for cultural differences. The impact of culture on joint ventures has been documented by various students of the Asia Pacific region. Sing Keow Hoon-Halbauer in her study of Beijing Jeep and Volkswagen in China, (Sing Keow Hoon-Halbauer , 1994), found that cultural divergence was associated with difficulties and that the situation improved when those divergence were reduced. Similar conclusions can be found in other studies dealing specifically with culture in Asia, (Swierczek, 1994; Ahmed and Li, 1996). It is expected that cultural divergence will be negatively associated with satisfaction.

Hence:

*Hypothesis 5*

*Everything being equal, cultural divergence will be negatively associated with perceived satisfaction by Western managers.*

## Control

Literature shows a relatively complex relationship between control and joint venture success, (Geringer and Hebert, 1989, for a review). Controlling joint ventures is frequently defined as a dominant shareholding, or as the presence of a sleeping partner, or finally, as the proprietary ownership of key resources or competencies by one of the partners. While some studies found a positive relationship between success and dominant shareholding, (Killing, 1982; Makino, 1996), some found none, (Beamish, 1984), or even that 50/50 joint ventures were more successful than majority ones, (Blodgett, 1992; Bleeke and Ernst, 1991). Joint ventures in ASEAN, with sleeping, or non active partners, have been found more satisfactory, (Lasserre, 1986).

Since the present study is dealing with the perceived satisfaction of the Western partner manager, it is assumed that, everything being equal he or she will perceive the venture as satisfactory if the foreign partner is in control. However, the exercise of control will be moderated when the foreign partner is to enter into a joint ventures because of a lack of competitive expertise in the local context, but, if the motive of the joint venture exercise is to satisfy a legal requirement one can expect that the foreign partner will look for a local sleeping partner, hence, increasing its control and its satisfaction.

Hence:

*Hypothesis 6a:*

*Everything being equal, control will be associated positively with perceived satisfaction.*

*Hypothesis 6b:*

*When the motive for a joint venture is for competitive reasons, control will be lower.*

*Hypothesis 6b:*

*When the motive for the joint venture is to satisfy legal requirements control will be higher*

## Motives

The motives for entering a joint venture can be twofold: either because of a legal requirement, or, for accessing resources, assets and competencies needed for competitiveness. (Lasserre and Schütte, 1995). The legal obligation motive is still quite present in many Asian countries. In such a case, the foreign partner has no choice but to go into a joint venture. As it has already been stated, one strategy is to look for a silent or sleeping partner, but if this strategy is not feasible, one can expect the forced situation to affect the perceived satisfaction negatively.

A similar case can be made for the second motive: the competitive motivation. The argument here is that the foreign partner is very dependant on his partner and will resent this dependency.

Hence:

*Hypothesis 7a:*

*Everything being equal, legal obligation will be negatively associated with perceived satisfaction by Western partners*

*Hypothesis 7b:*

*Everything being equal, competitive motivation to enter a joint venture will be negatively associated with perceived satisfaction by Western partners*

## Model Testing

### Methodology

A Questionnaire Survey was sent to 1015 Western managers working in the Asia Pacific region and holding a position of general management.

124 questionnaires were returned of which 26 from Hong Kong, Singapore, and India Myanmar had to be discarded because too few responses were received from each of these countries. 98 questionnaires could be used, covering joint ventures in seven countries. The description of the sample is reported in Table 1

**Table 1**  
**Sample description**

<u>Country of the Joint Venture</u>		<u>Country of Origin of Foreign Partner</u>		<u>Industrial Sector</u>	
China	25	United Kingdom	17	Chemicals	22
Korea	18	Germany	15	Pharmaceutical	12
Vietnam	13	France	15	Machinery	11
Japan	12	USA	14	Infrastructure	9
Indonesia	12	Switzerland	11	Oil/Lubricants	7
Thailand	10	Netherlands	8	Food/Beverage	6
Malaysia	8	Belgium	4	Consumers goods	5
		Australia	4	Textile	5
		Sweden	4	Construction material	4
		Denmark	2	Financial services	3
		Austria	1	Other services	10
		Norway	1	Electronics	2
		New Zealand	1	Agro-based	2
		Finland	1		
<b>Total</b>	<b>98</b>		<b>98</b>		<b>98</b>



The sample cannot be considered as significantly representative of the population of Western companies having joint ventures in Asia, although it represents a large variety of industries and of countries of origin.

The questionnaire included 42 questions in which the respondents had to give an opinion on a statement. Those questions are reproduced in appendix 1. It was clearly stated to respondents that their opinions were given with a particular reference to a particular joint venture in a particular country. 33 of those questions represented those in the model described in exhibit 1. In addition there were open questions in which the respondent was asked to give opinions on the lessons they learned from their joint venture and to indicate their recommendations for the future. Questions were grouped into categories corresponding to the dimensions included in the hypothesis and were further reduced by factor analysis.

Table 2 gives a list of the variables generated from factor analysis as well as the variables directly derived. Appendix 2 gives the results of the factor analysis and the list of questions included in the factors with their respective factors loading.

All the variables included in the set of hypothesis were confirmed by factor analysis, except for the strategic fit variable which is decomposed into two components; the short term orientation of partners and the extractive orientation of partners. An additional variable, the Need for Change was found to be an interesting inclusion in the analysis with regard to its relationship with the perceived degree of satisfaction. Those two subvariables were used to test hypothesis 4.

**Table 2**  
**List of Variables included in the Analysis**

<u>Variable</u>	<u>Code Name</u>	<u>Explanation</u>
• Perceived Satisfaction by Western Managers	SATIFACT	Questions 8, 9, 26, 40, 41
• Need for Change	CHANGE	Questions 18, 42
• Cultural Divergence	CULTURE	Questions 7, 11, 12, 15, 17
• Short term Orientation of Partner	SHORTERM	Questions 14, 22, 25
• Extractive Orientation of Partner	EXTRACTI	Questions 3, 6, 13
• Competitive Obligation	COMPOBLI	Questions 2, 20
• Ability to Control	CONTROL	Questions 4, 5, 19, 28
• Experience with Joint Ventures in Asia	EXPERIEN	Questions 32, 33
• Preparation	PREPARED	Questions 34, 35, 36, 37, 38
• Legal Obligation	LEGOBL1	Question 1
• Age of the Joint Venture	AGE	Question 0

The model presented in Exhibit 1 was tested using multiple stepwise regression analysis.

## Results

A table of simple correlation coefficient is given in Table 3 and the results of the regressions is given in Table 4.

**Table 3**  
**Simple Correlation Table**

	AGE	CHANGE	COMPELI	CONTROL	CULTURE	EXPERIEN	EXTRACTI	LEGOBLI	PREPARED	SATISFACT	SHORTERM
AGE	1,0000										
CHANGE	,0046	1,0000									
COMPELI	-,2765**	,0817	1,0000								
CONTROL	-,1178	-,1418	,0786	1,0000							
CULTURE	,0559	,3726**	-,1307	-,4217**	1,0000						
EXPERIEN	-,0334	-,1933	-,0090	,1146	-,2827**	1,0000					
EXTRACTI	,0124	,1780	-,0441	-,2771**	,4815**	-,2391*	1,0000				
LEGOBLI	-,2244*	,0713	,0329	,1775	,0232	-,0414	,0490	1,0000			
PREPARED	-,3028**	,1326	,3246**	-,0054	,0626	,2077*	,0896	-,0109	1,0000		
SATISFACT	-,0034	-,2505*	,3604**	,3535**	-,5726**	,2938**	-,3872**	-,1137	,1749	1,0000	
SHORTERM	-,1712	,2463*	-,0610	-,1843	,2505*	-,1148	,0000	,2709**	-,1289	-,4242**	1,0000

\* - Signif. LE ,05      \*\* - Signif. LE ,01      (2-tailed)

**Table 4**  
**Multiple Regression Analysis**

### 1) Regression of Perceived Satisfaction

<u>Variables Retained in the Equation</u>	<u>Beta</u>	<u>T Stat.</u>	<u>Signf</u>
Cultural Divergence	-.36	-4.17	.0001
Short term Orientation of Partner	-.32	-4.23	.0001
Extractive Orientation of Partner	-.20	-2.43	.02
Competitive Obligation	.28	3,93	.0002
R square = 0.52 ( F = 25.26; Significance .00001)			

<u>Variables Not Retained in the Equation</u>	<u>Beta</u>	<u>T Stat.</u>	<u>Signf</u>
Age of the Joint Venture	.05	.647	.51 NS
Ability to Control	.08	1.016	.31 NS
Experience with Joint Ventures in Asia	.12	1.634	.10 NS
Legal Obligation	-.02	-.277	.78 NS
Preparation	.095	1.234	.22 NS

### 2) Regression on Control

Legal Obligation	.10	1.738	.08 NS
Competitive Obligation	.07	0.723	.47 NS

### 3) Regression on Culture (variables retained after stepwise regression)

Ability to Control	-.39	-4.36	.00001
Experience	-.23	-2.62	.01
R square = 0.17 ( F = 20.76; Significance .00001)			

**4) Regression on Extractive Orientation of Partner (variables retained after stepwise regression)**

Ability to Control	-.25	-2.61	.02
Experience	-.21	-2.16	.04

R square = 0.07 ( F = 7.98; Significance .006)

**5) Regression on Short Term Orientation of Partner (variables retained after stepwise regression)**

Ability to Control	-.24	-2.46	.02
Legal Obligation to Joint venture	+19	3.22	.002

R square = 0.07 ( F = 7.60; Significance .007)

**Simple Regressions**

Satisfaction and Change (Rsq = .06)	-.25	2.535	.02
Experience and Preparation ( Rsq =.04)	.20	2.04	.04

---

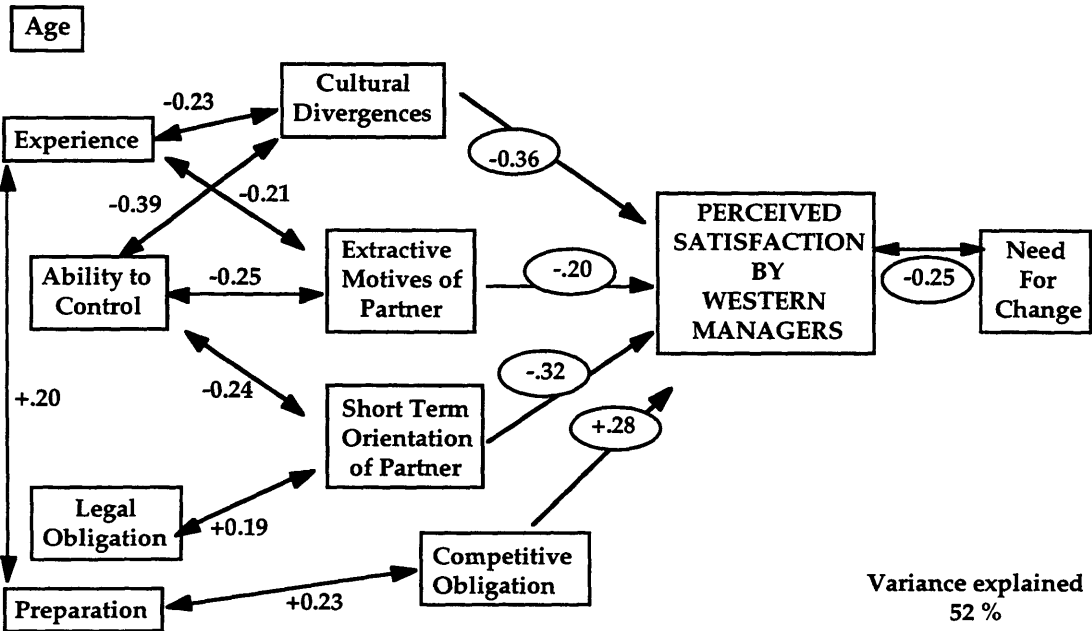
The analysis shows that hypothesis 3b, 4, and 5, are supported, hypothesis 1, 2, 3a, 6a, 6b, 6c, and 7a are not supported and an inverse relationship is supported for hypothesis 7b.

The four main variables related to perceived success are: cultural divergence, short term orientation of partner and extractive orientation of partners (negative relationships), and competitive obligation (positive relationship). A second set of regression was run to analyse the relationships of those four major determinants of perceived success with other variables. Those relationships are also reported in Table 4

Exhibit 2 shows the resulting path diagram of the supported relationships.

**Discussion**

This analysis shows the predominance of the cultural and strategic fit factors. Both cultural divergence, short term orientation and extractive orientation of partners have a very strong negative influence on the expressed satisfaction of Western managers. Conversely it can be deducted that cultural fit, longer term orientation and a constructive non extractive orientation of partner will be associated with higher satisfaction. Exhibit 3 represents a contingency table showing the combined effect of those variables on the score of perceived satisfaction. This result does not come as a surprise but what is interesting here is the near dominance of the strategic and cultural factors, the three variables: cultural divergence, short term orientation, and extractive orientation explain 44% (out of 52%) of the variance. Variables like control, experience, legal obligation and preparation do not come as good predictors of satisfaction.



**Exhibit 2**  
**Resulting Path Diagram**

The ability to control the JV is not related directly to satisfaction although it is often quoted by Western managers as an important factor for the success of joint ventures. The simple correlation analysis seems to confirm this view point ( $R = .35$  between Control and Satisfaction) but its effect is cancelled out when mixed with other cultural and strategic factors. However control has an indirect positive effect since it is negatively linked to the three variables of cultural divergence and short term and extractive orientations of local partners. Controllability is a measure combining the ability to have a sleeping partner and the ability to get majority control. In both cases the cultural and strategic divergences are reduced.

Similarly the amount of experience with joint ventures in the region does not lead directly to satisfaction but indirectly through a reduction of cultural clashes and a reduction in extractive orientation. This indicates that learning invites companies to be more cautious in selecting their partners as well as understanding and taking care of cultural differences.

The legal obligation of having a joint venture partner has no direct effect, but, a slight indirect effect on satisfaction through its positive relationship with the short term orientation of local partners. It seems that when forced to have a partner, foreign companies fall more likely into the hands of local companies interested mainly with quick profits.

## PERCEIVED SATISFACTION

<u>Strategic Fit *</u>	Positive	-.05	.69
	Negative	-.82	.14
		Negative	Positive

Cultural Fit\*\*

\* Strategic fit is the negative average of Short term orientation and Extractive orientation

\*\* Cultural fit is the negative score of cultural divergence

Differences between average score across cells is significant at 0.001 level

### Exhibit 3

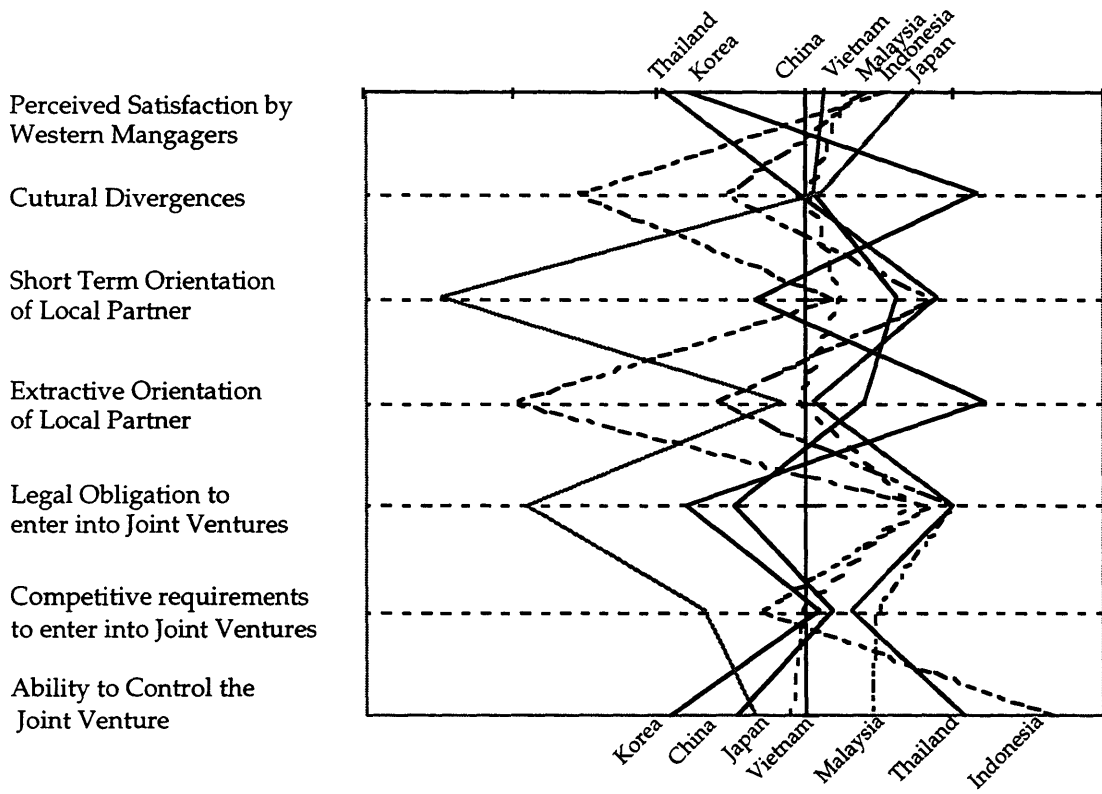
#### Combined Effects of Cultural and Strategic Fits on the Perceived Satisfaction of Western Joint Venture Partners in Asia Pacific

A more intriguing relationship is the one linking the competitive obligation and satisfaction. The more one is obliged to have a partner, the more the satisfaction exhibited by Western managers. This runs against our prior hypothesis. The explanation can be found in the fact that when the choice of a joint venture partner is dictated by competitive motivation, companies are more careful in selecting their partners and preparing their contracts. (There is a positive relationship between the competitive obligation and the amount of preparation [R =.32]). Their expectations are more reasonable and hence their expressed satisfaction, higher.

## PART 2

### DIFFERENCES ACROSS COUNTRIES IN THE ASIA PACIFIC REGION

The second part of the research intends to analyse differences in joint venture characteristics across countries in the Asia Pacific region. This part is not hypothesis testing, but more profile building based on the previous. The profiling of the various countries is given in Exhibit 4. The exact mean scores are reported in appendix 3.

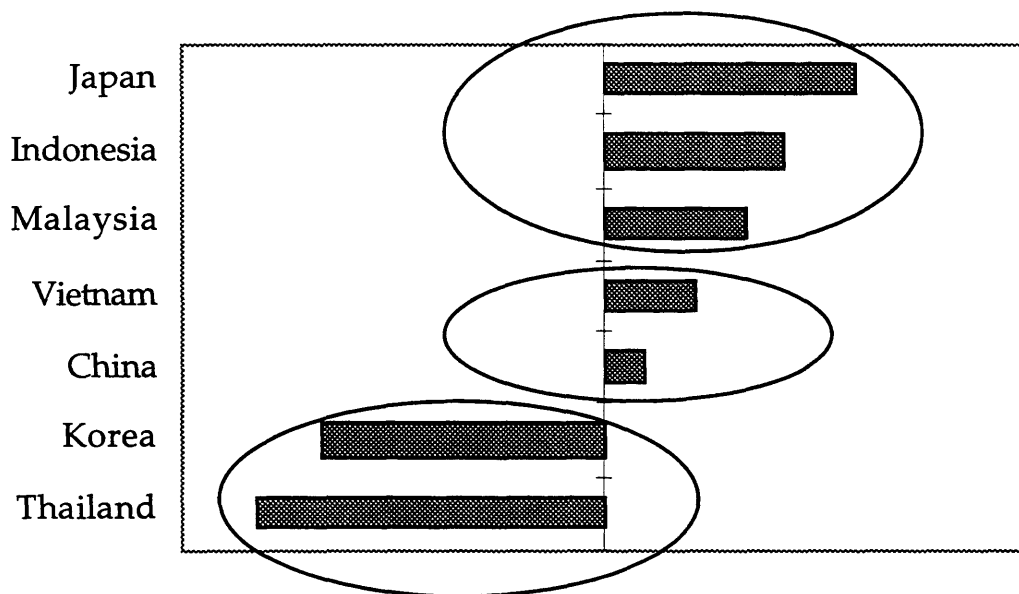


**Exhibit 4**  
**Profiling of Countries on Joint Venturing Dimensions in the Asia Pacific Region**

Exhibit 4 shows that in our samples the various countries of Asia Pacific have a different profile with regard to the joint ventures characteristics.

With regard to the level of satisfaction expressed there are clearly three categories of countries (Exhibit 5): the highest expressed satisfaction is found in Japan, Indonesia, and Malaysia, while China and Vietnam generate a moderate level of satisfaction, and, Korea and Thailand a high level of dissatisfaction.

In our sample the Western companies having joint ventures in Japan found the cultural divergence were somewhat limited, the strategic alignment with partners feasible, (both long term and non extractive orientation). The motivation to enter in a joint venture is neither legal nor competitive. Controllability is moderately low. The influence of the strategic fit factors is in our view determining in the case of Japan. Although it is perceived as slightly difficult culturally, time may have played a role in eroding these differences and making the relationship workable. On average, joint ventures in Japan last 18 years, while in other countries they are between two and nine years. In open questions respondents in Japan indicated that the building of trust and understanding among partners over time were among the factors which they found important.



**Exhibit 5**

**Perceived Satisfaction of Western Managers Across Countries**

(Differences statistically significant between the three clusters - 0.04 level- but non significant between individual countries)

Malaysia and Indonesia show a rather similar profile: relative high satisfaction, low cultural divergence, low extractive orientation, relative higher short term orientation, high controllability, high obligation to enter into a joint venture for legal reasons. The need to enter into a joint venture for competitive reason is not present in Indonesia while it is in Malaysia. In the case of those two countries the indirect relationship between controllability and satisfaction analysed earlier may well apply. Conflicts are less likely to occur with sleeping partners. The absence of an extractive orientation from the part of the sleeping or minority partners may also play a

role. In the open questions many respondents indicated that their partner was either "sleeping" or busy with hundred of other businesses and therefore not very active in the running of the joint venture.

China and Vietnam exhibit a middle of the road appearance in this profile. This comes as a surprise since many previous studies have documented difficult relationships in Chinese joint ventures. Our sample confirms the extractive and short term orientations of local partners in China, but a neutral view on cultural differences. Altogether the degree of satisfaction is low but positive. The average age of the joint venture in our sample was 2 years in Vietnam and 4 years in China. A 'wait and see' attitude may well explain why Western managers reserve their judgement. In their qualitative opinions respondents in China stressed the need for patience and learning as an important factor; they apply in their judgement what they preach.

Finally in Korea and Thailand the degree of satisfaction is negative. In Korea this result was somewhat expected, but it came as a surprise in Thailand. The case of Korea appears to be clear in this sample: high cultural divergence, high extractive orientation, and low controllability.

In the case of Thailand the tracing of dissatisfaction is more difficult. There are no cultural divergence on average, a positive extractive orientation, and high short term orientation. This indicates that on average there is no strong strategic fit in Thai joint ventures included in the sample and that factor combined a neutral cultural fit which explain the unsatisfactory score.

## IMPLICATIONS

This research confirms quite strongly the view that the well being of joint ventures in the Asia Pacific region is above all a matter of strategic and cultural fit. Other studies have shown the predominant importance of personal relationships, as opposed to contractual ones, in conducting business in Asia ( Redding, 1990; Lasserre and Probert, 1994), the present results re-emphasise this view.

In their open answers the respondents in this survey have given credit to this point of view (Table 5). In their answers on "What lessons did you learn" and "What would you do differently", their answers focused on the need to build a strong understanding among partners (40 %) and taking time to prepare the joint venture from a business point of view, as well as defining the role of each partner (22%) at the implementation stage. Patience, commitment, flexibility and ability to renegotiate and to develop local human resources scored third (20%) ahead of the more legalistic approach to controlling the joint venture through a majority shareholding or through a rapid buy out. A respondent in Indonesia stated: *"While multinationals tend to be legalistic*



and structured in approach, here we must be willing to make 'deals' with the partner".

**Table 5**

**The frequently quoted statements concerning the main lesson learned by respondents and their recommendations**

<u>A) Partner selection and relationships</u>	40%
<ul style="list-style-type: none"> <li>• Agree on objectives</li> <li>• Take time to build and keep relationships</li> <li>• Take time to select a partner</li> <li>• Focus on trust and communication</li> </ul>	
<u>B) Preparation and planning</u>	22%
<ul style="list-style-type: none"> <li>• Try to fix details and roles of partners before starting</li> <li>• Do a thorough preparation and feasibility</li> </ul>	
<u>E) Implementation</u>	20 %
<ul style="list-style-type: none"> <li>• Commitment, Flexibility, Patience</li> <li>• Ability to renegotiate</li> <li>• Localisation of management</li> </ul>	
<u>C) Control</u>	18%
<ul style="list-style-type: none"> <li>• Try to get majority</li> <li>• Buy out as early as possible</li> </ul>	
	100%

Practically it means that preparing negotiating joint ventures requires more than legal, marketing or financial skills. It requires first a thorough understanding of what the company wants to achieve with the joint venture and on that basis draws a strong and clear message to be conveyed to potential partners. In so doing the time to evaluate, talk and communicate with potential partners should not be counted. A respondent in Indonesia indicated *"Don't underestimate the time to develop the relationship to reach the agreement. The local partner, even after reaching the agreement, may not go into bat for the project until he is sure that it is likely to be successful"*. Another one, in Thailand stated: *"Instead of negotiating a joint venture during business visits, one should spend several months in the host's country"*. A good cultural and strategic assessment of the partner's capabilities and objectives is imperative. A general manager in Korea insisted on *"Focus on shared objectives; do not have a hidden agenda, it will not work. Do not look at the majority at any cost; look for the right partner"*

Finally after the agreement is signed there is the need to keep the lines of communication between partners wide open. As one respondent indicated in a statement: *"In the long run each partner's interest diverge from the start. Thus you spend 50% or more of your time to manage the partner, not the*

*company. It is perpetual negotiation .." Another one in Japan:"You need regular reviews to adjust to the environment. The original feasibility study proved to be worthless".*

All of those concluding statements appear maternal, but reality proves that sometimes even elementary prescriptions are often forgotten.

## References

Ahmed, Pervaiz and Xiaokai Li, "Chinese Culture and its Implications for Sino-Western Joint Venture Management", Strategic Change, 1996, Vol. 5, pp. 275-286.

Anderson, Erin and Hubert Gatignon, "Modes of Foreign Entry: a Transaction Cost Analysis and Proposition", Journal of International Business Studies, Fall 1986, pp. 1-26.

Beamish, Paul, Joint Venture Performance in Developing Countries, Unpublished Doctoral Dissertation, University of Western Ontario, 1984.

Beamish, Paul W., and John Banks, "Equity Joint Ventures and the Theory of the Multinational Enterprise", Journal of International Business Studies, Summer 1987, pp. 1-14.

Dymsza, William, "Successes and Failure of Joint Ventures in Developing Countries: Lessons from Experience", in F. Contractor & P. Lorange, Eds., Cooperative Strategies In International Business, pp. 31-53. Toronto, Lexington, 1988.

Bleeke, John and David Ernst, "The Way to Win in Cross-border Alliances", Harvard Business Review, 1991, Vol. 69, N°6, pp. 127-135.

Blodgett, L.L, "Factor Instability of International JVs: An Event History Analysis", Strategic Management Journal, 1992, Vol. 13 , pp. 475-481.

Buckley , Peter, and Mark Casson, "A Theory of Cooperation in International Business", in F. Contractor & P. Lorange, Eds., Cooperative Strategies In International Business, pp. 31-53. Toronto, Lexington, 1988.

Franko, Lawrence, Joint Venture Survival in Multinational Enterprises, New York, Praeger, 1971.

Geringer, Michael and Louis Hebert, "Control and Performance of International Joint Ventures", Journal of International Business Studies, Summer 1989, pp. 236-254.

Gomes-Casseres B. , "Joint Venture Instability: Is it a Problem?", Columbia Journal of World Business, Summer 1997, pp. 97-107

Hennart, Jean-François., "A Transaction Cost Theory of Equity Joint Ventures", Strategic Management Journal, Vol. 9, N°4, 1988, pp. 361-374.

Janger, Allen, Organisation of International Joint Ventures, The Conference Board, New York, 1980.

- Hamel, Gary, Yves Doz & C.K. Prahalad, "Collaborate with your Competitors and Win", Harvard Business Review, 1989, Vol. 67, pp. 133-189.
- Harrigan, Kathryn, Strategies for Joint Ventures, D.C Health, Lexington, Mass., 1985
- Harrigan, Kathryn, Managing for Joint Venture Success, D.C Health, Lexington, Mass., 1986.
- Inkpen, Andrew, The Management of International Joint Ventures: An Organizational Learning Perspective, Routledge, London, 1995
- Killing, Peter, Strategies for Joint Venture Success, Praeger, New York, 1983.
- Kogut, Bruce (b)., "A Study of the Life Cycle of Joint Ventures", in F. Contractor & P. Lorange, Eds., Cooperative Strategies In International Business, pp. 169-185. Toronto, Lexington, 1988.
- Kogut, Bruce, (a), "Joint Ventures: Theoretical and Empirical Perspectives", Strategic Management Journal, Vol. 9, N°4, 1988, pp. 319-332.
- Lasserre, Philippe, "Strategic Assessment of International Partnership in ASEAN Countries", Asia Pacific Journal of Management, Vol. 1, N° 1, September 1983.
- Lasserre, Philippe, and Jocelyn Probert, "Competing on the Pacific Rim: High Risk and High Returns", Long Range Planning, 1994, Vol. 27, N°2, pp. 12-35.
- Lasserre, Philippe, and Hellmut Schütte, Strategies for Asia Pacific, London, McMillan, 1995.
- Levy, B., "The Peril of Partnership: Dow in Korea", in K. Moskowitz, Ed., From Patron to Partner, Lexington, Mass.: Lexington Books, 1984.
- Makino, Shigefumi, "The Control and Performance of International JV", in Andrew Inkpen, The Management of International Joint Ventures: an Organizational Learning Perspective, Routledge, London, 1995, pp. 35-45.
- Moss Kanter, Rosabeth, "Collaborative Advantage: The Art of Alliances", Harvard Business Review, Vol. 72, Jul-Aug 1994, pp. 96-108.
- Newman, William, "Launching a Viable Joint Venture", California Management Review, Fall 1992, pp. 68-97.
- Parkhe, A., "Interfirm Diversity, Organizational Learning, and Longevity in Global Strategic Alliances", Journal of International Business Studies, Fall 1991, pp. 579-602.
- Pucik, Vladimir, "Strategic Alliances with the Japanese: Implications for Human Resource Management", in F. Contractor & P. Lorange, Eds., Cooperative Strategies In International Business, pp. 487-498. Toronto, Lexington, 1988.
- Reich, Robert, and E. Mankin, "Joint Ventures with Japan Give Away our Future", Harvard Business Review, 1986, Vol. 54, pp. 78-86.
- Redding, Gordon, The Spirit of Chinese Capitalism, Berlin: Walter de Gruyter, 1990.
- Swierczek F., "Culture and Conflict and Joint Venture in Asia", International Journal of Project Management, 1994, Vol. 12, N°1, pp. 39-47.

Hoon-Halbauer, Sing Keow, Management of Sino-Foreign Joint Ventures, Lund University Press, 1994 .

Shaan, Jean-Louis, Parent Control and Joint Venture Success: the Case of Mexico, Unpublished Ph.D. Dissertation, University of Western Ontario, 1983.

Stopford, John, and Louis Wells, Strategy and Structure of Multinational Enterprises, Basic Books, New York, 1972.

Sullivan J.J., and R.B. Peterson, "Factors Associated with Trust in Japanese-American JVs", Management International Review, 1982, Vol. 22, N°2, pp. 30-40.

Tomlinson, James, The Joint Venture Process in International Business: India and Pakistan", MIT Press, Cambridge, Mass., 1970.

Thompson, "Relationship Problems in Australian Business Ventures in South East Asia, Journal of Asian Business, 1996, Vol. 12, N°2, pp. 1-19.

Turpin, Dominique, "Strategic Alliances with Japanese Firms: Myths and Reality", Long Range Planning, 1993, Vol. 26,N°5, pp. 11-16.

Vanhonacker, Wilfried and Y. Pan, "The Impact of Country of Origin, Business Scope, and Location on International JV Operations in China", Euro-Asia Research Series, INSEAD, Fontainebleau, 1993

Yan, A. and G. Gray, "Bargaining Power, Management Control, and Performances in United States-China Joint Ventures: A Comparative Case Study", Academy of Management Journal, 1994, Vol. 37, pp. 1478-1517

## Appendix 1

### List of Questions in the Survey of Joint Ventures in Asia

---

Average age of joint ventures

- 1 One is obliged by law to enter into a joint venture
- 2 It is better to engage in a partnership for competitive reasons
- 3 Local partners are only interested in technology
- 4 It is easy to find "sleeping" partners in this country
- 5 One needs a 50% shareholding to "control" a joint-venture
- 6 More difficult to understand the real intentions of partners than in Eur ope
- 7 Communication with local partners is very difficult
- 8 Joint ventures cannot last very long
- 9 One is likely to experience difficulties with joint ventures
- 10 A joint venture should end or be renegotiated after five years
- 11 It is not possible to close the cultural gap with local partners
- 12 Local partners have unreasonable expectations about joint ventures
- 13 Technology or products will be imitated by the joint venture partner
- 14 Local partners are only interested in short term benefits from a joint venture
- 15 Western systems are not compatible with joint ventures in this country
- 16 One should not expect to have a dividend before long
- 17 Mutual trust is difficult to build given the cultural differences
- 18 It is important to have a clear definition of responsibilities between partners
- 19 "Control" of a joint venture even with a majority shareholding is not possible
- 20 Because of complexity, one needs a JV partner to do business
- 21a The major contribution of JV partner is to give access to market
- 21b The major contribution of a JV partner is to give access to contacts
- 21c The major contribution of a JV partner is to give access to human resources
- 21d The major contribution of a JV partner is to build government "goodwill"
- 21e The major contribution of a JV partner is to "understand" the environment
- 21f The major contribution of a JV partner is to provide manufacturing facilities
- 21g The major contribution of a JV partner is to provide logistical support
- 21h The major contribution of a JV partner is to provide distribution networks
- 22 Pricing is the only tool for the joint venture partner
- 23a A joint venture company imposes his choice in recruitment
- 23b A joint venture company imposes his selection of local suppliers
- 24a It is difficult to agree with the partner on business objectives
- 24b It is difficult to agree with the partner on recruitment
- 24c It is difficult to agree with the partner on purchasing matters
- 24d It is difficult to agree with the partner on marketing policies
- 24e It is difficult to agree with the partner on dividends and reinvestment
- 24f It is difficult to agree with the partner on management practices
- 25 Partners are only interested in quick profits
- 26 As soon as possible, we will set up our wholly owned operations
- 27 Our company policy is to avoid joint ventures
- 28 It is possible to "control" joint ventures with a minority shareholding

- 29a In a joint venture, our staff should control finance
  - 29b In a joint venture, our staff should control marketing
  - 29c In a joint venture, our staff should control production
  - 29d In a joint venture, our staff should control personnel
  - 29e In a joint venture, our staff should control general management
  - 30 In our joint venture, we exercise a policy of "tandem staffing"
  - 31 How does your partner regard your company
  - 32 This joint venture is different from any others our company has
  - 33 Our company has lengthy experience of joint venturing in the Asia Pacific region
  - 34 We spent a long time preparing this joint venture
  - 35 We negotiated a business plan in addition to the legal documentation
  - 36 We made a feasibility study before setting up the joint venture
  - 37 Operational as financial, legal or gen managers involved in the preparation
  - 38 Negotiations lasted (Less than 3 month, Between 3 and 12 months, more than 12 months)
  - 39 Difficult points to negotiate
  - 40 We are all satisfied with the results of this joint venture
  - 41 I expect the joint venture to last long ( more than 3, 5,7,10 years)
  - 42 To make a joint venture last, one has to bring in new products or technologies
-

## Appendix 2 Factor Analysis of Variables

Factor analysis was done using principal component.  
Factors with value higher than 1 were kept.  
When needed Quartimax rotation was used

### One factor labelled: Perceived Satisfaction by Western Manager

<u>Questions</u>	<u>Factor Loading</u>
8) Joint ventures cannot last very long here	-.662
9) In this country one is likely to experience a lot of difficulties with joint-venture	-.653
26) As soon as possible we will get out of this joint venture	-.706
40) Now we are well satisfied with the results of this joint venture	.759
41) I don't expect the joint venture to last long	-.652

Eigenvalue 2.36. Variance explained 47.3%

### One factor labelled : Need for Change

<u>Questions</u>	<u>Factor Loading</u>
10) It is very important about ending or renegotiating a joint venture after five years	.730
42) If one wants a joint venture to last a long time one has to bring new products or technologies	.730

Eigenvalue 1,06 Variance explained 53,3 %

### One factor labelled: Ability to Control

<u>Questions</u>	<u>Factor Loading</u>
4) It is easy to find a sleeping partner	.616
5) Here, one needs to have more than 50% to control a joint venture	-.609
19) It is not possible to control, even with a majority shareholding	-.487
28) Even with minority shareholding it is easy to control a joint venture	.835

Eigenvalue 1.68, Variance explained 42.2 %

### Factor analysis of variables (Continued)

#### One factor labelled: Cultural Divergence

<u>Questions</u>	<u>Factor Loading</u>
7) Communication with local partners is very difficult	.773
11) It is not possible to close the cultural gap in this country	.726
12) Local partners have unreasonable expectations about joint ventures	.683
15) Western management system are not compatible with the management of the joint venture	.695
17) Mutual trust among partners is difficult to bud given that cultural differences are greater than elsewhere in Europe or the USA	.784
41) I don't expect the joint venture to last long	-.652

Eigenvalue 2.69. Variance explained 53.8%

#### One factor labelled: Experience with Joint Ventures in Asia

<u>Questions</u>	<u>Factor Loading</u>
32) This joint venture is really different from any others our company has outside this country	-.765
33) Our company has lengthy experience of joint venturing in Asia Pacific	.765

Eigenvalue 1,17 Variance explained 58,6 %

#### One factor labelled: Competitive Obligation

<u>Questions</u>	<u>Factor Loading</u>
2) Although the law and regulations do not force foreign investors to have a local partner, it is better to engage in a partnership for competitive reasons	.893
20) The competitive environment is so complex that one needs a joint venture partner to do business in this country	.893

Eigenvalue 1,59 Variance explained 79,7%



### Factor analysis of variables (Continued)

Two factors derived from strategic fit related questions

(Quartimax Rotation):

Factor 1 is labelled : Short term Orientation of Partner

Factor 2 is labelled: Extractive Orientation of Partner

<u>Questions</u>	<u>Factor Loading</u>	
	<u>Factor 1</u>	<u>Factor 2</u>
3) Local partners are only interested in getting access to technology		.831
6) It is more difficult to understand the real intentions of local partners than in Europe in the USA		.770
13) There is a strong probability that products or technology will be imitated by the joint venture partner in other settings		.588
14) Local partners are only interested in short term benefits	.873	
22) For the joint venture partner the only marketing tool is pricing	.679	
25) Joint venture partners are only interested in quick profits and are reluctant to reinvest in the joint venture	.894	
Eigenvalue	2.32	1.47
Variance explained: Total 63,2 %	38,7%	24,25%

One factor labelled: Preparation

<u>Questions</u>	<u>Factor Loading</u>
34) We spent a long time negotiating this joint venture	.778
35) We negotiated a business plan	.726
36) We made a feasibility study	.798
37) Operational people were involved in the preparation of the joint venture	.594
38) The joint venture lasted long	.390
Eigenvalue 2.19 Variance explained 44%	

**Appendix 3**  
**Mean scores across countries**

	<u>China</u>	<u>Vietnam</u>	<u>Malaysia</u>	<u>Thailand</u>	<u>Indonesia</u>	<u>Korea</u>	<u>Japan</u>	<u>F</u>	<u>Sig.</u>
Perceived satisfaction by Western managers	0,06	0,13	0,21	-0,50	0,26	-0,41	0,36	2,77	0,04*
Cultural divergences	0,02	0,02	-0,27	-0,03	-0,77	0,57	0,05	2,48	0,03
Short Term orientation of local partner	0,30	0,11	0,43	0,44	0,09	-0,18	-1,24	5,26	0,001
Extractive orientation of local partner	0,19	-0,02	-0,30	0,02	-0,99	0,59	-0,08	3,3	0,002
Legal obligation to enter joint venture	-0,24	0,35	0,50	0,50	0,42	-0,41	-0,95	15,43	0,001
Competitive need to enter joint venture	0,09	-0,01	0,24	0,14	-0,16	0,03	-0,35		NS
Ability to control	-0,24	-0,05	0,23	0,53	0,83	-0,47	-0,17	3,29	0,006
Need for change	0,31	-0,29	0	-0,06	-0,21	0,05	-0,14		NS
Experience with JV in Asia Pacific	0,17	-0,1	-0,25	0,1	0,21	-0,16	-0,14		NS
Amount of preparation	0,31	0,16	-0,5	0,02	-0,17	-0,14	-0,11		NS
AGE	4	2,07	8,5	5,1	9,2	9,2	18,7	10,61	0,000 001

Except for age and local obligation all variables are standardised (Mean = 0; Std = 1)  
 (\*) Perceived Satisfaction shows a significant difference across countries. Only Indonesia and Malaysia on the one hand, and, Korea and Thailand on the other are grouped together.