1985

Joint Venture Performance In Developing Countries

Paul William Beamish

JOINT VENTURE PERFORMANCE
IN DEVELOPING COUNTRIES

by

Paul William Beamish

School of Business Administration

Submitted in partial fulfillment of
the requirements for the degree of
Doctor of Philosophy

Faculty of Graduate Studies
The University of Western Ontario
London, Ontario

October, 1984

ABSTRACT

Given the predominance of joint ventures over wholly owned subsidiaries in less developed countries, the issue of joint-venture performance is an important one. Of the limited joint-venture literature focussed on performance, most emphasizes the positive relationship between performance and dominant management control by one partner. An analysis of the literature, plus a pilot survey conducted as a first step in this research, indicated a weakening of the link between dominant management control and satisfactory performance when the focus shifted from developed to developing countries. This survey of the experience of large Canadian multinational enterprises (MNEs) with 34 manufacturing joint ventures in developing countries also indicated that characteristics of joint ventures in developed and developing countries differ significantly. The survey found differences in (a) the way they were managed, (b) performance, (c) stability, and (d) reasons for establishing joint ventures. More important, the survey suggested several variables crucial in determining joint venture success. These were the existence of, first, mutual long term need between partners; and second, commitment of both partners to the joint venture structure in an international context.

The relationship between need and commitment and other variables to performance was subsequently examined via interviews in companies involved in an additional 32 ventures, with particular emphasis on 12 comparative core cases. Operational measures of need, commitment, and performance were developed following the pilot survey. As part of the data-gathering process, a questionnaire incorporating these measures

was administered to both the foreign and local partners (where possible) and to the general manager in each of the 12 core ventures. The core ventures were from two less technology-intensive sectors -- food processing and consumer products. There were both satisfactorily and unsatisfactorily performing ventures in each sector. Overall, seven of these 12 ventures were considered satisfactory performers, and the remainder, unsatisfactory. Ten of the 12 were located in Caribbean market economies, with half of these in a single country. All of the 12 ventures were between U.S., U.K., or Canadian MNEs and local private firms. An analysis of the data in the 12 core ventures (supported by information in the other 54 ventures) supported the use of need and commitment in explaining joint-venture performance.

A managerial guideline is provided, which the research suggests will lead to improved performance of joint ventures in developing countries. The guideline recommends forming joint ventures with partners when there will be a mutual long term need; when the need will be specific rather than general in nature; when the companies are committed to the use of joint ventures; and when a company is committed to the particular joint-venture partner. Staffing with local managers, selling equity to the general manager, and avoiding situations where the MNE has dominant ownership and/or dominant control are additionally recommended.

The research also extends the theory of the multinational enterprise to include an expanded role for joint-equity ventures. This is done in a way that maintains the acceptability of internalization theory as a suitable explanation of the MNE.

Acknowledgements

I wish to acknowledge the contributions of a number of people, both toward the successful completion of this dissertation, and for my development during the doctoral program.

My thesis co-supervisors, Thomas A. Poynter and Henry W. Lane were instrumental in the evolution of my thesis. I am grateful to Tom for his willingness to 'work at the frontier' when otherwise would have been safer. Harry's emphasis on clarity and 'understanding the process' helped focus my thinking and is equally appreciated.

The Business Policy area group collectively reinforced a managerial perspective through case writing and teaching activities. The Special Fields Seminars with individual faculty members were always interesting - contact with Leonard Wrigley being especially memorable.

Because I am writing this subsequent to my oral defense, it is not inappropriate to comment on my examining board. My work has benefitted greatly from the questions posed by Joseph J.DiStefano and J. Peter Killing from the School of Business Administration, John Palmer from the Department of Economics and Louis T. Wells from Harvard University.

At Wilfrid Laurier University, John Banks, Elsie Groyan and David Yates each provided different forms of assistance for which I am grateful.

The Beamish and Conley families were constant sources of support, as were fellow doctoral candidates Henri Barki and Jean-Louis Schaan.

My greatest thanks is reserved for my wife Maureen, to whom this effort is dedicated. Maureen's encouragement throughout the program was unstinting.

Financial support from the Plan for Excellence, University of Western Ontario and from the Canadian International Development Agency is gratefully acknowledged.

Notwithstanding the generous assistance received from these and many other people, I am wholly responsible for this thesis.

Paul W. Beamish
Waterloo, Ontario

TABLE OF CONTENTS

Page

Page

LIST OF FIGURES

LIST OF TABLES

LIST OF TABLES IN APPENDICES

I. INTRODUCTION

1. The Problem in Context

Joint ventures, not wholly-owned subsidiaries, predominate in business organizations used by multinational enterprises (MNEs) in less developed countries (LDCs).(1) 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.(2)(3)

The purpose of this research was to address the question of how the performance of joint business ventures in developing countries could be improved. Frequent performance problems of joint ventures in LDCs is 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 did not emphasize it, there are also social costs to the host country when joint ventures experience difficulties or fail.(4)

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 U.S. $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 whom holds at least five percent 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. The importance of focusing on this particular form of foreign equity investment is supported by recent research on U.S. multinational enterprises in developing countries: "Both U.S. MNCs and host country executives believe that a joint venture with a private local firm offers more advantages when compared with <u>any</u> other form of foreign equity investment for the U.S. MNC and the host country." (Emphasis added.)(5) Inclusion in the study required that the venture be in manufacturing (rather than service, mining or distribution) and to have been in operation for at least three years (whether it still operated or not). Non-manufacturing ventures were excluded because mixing joint ventures in a sample where the scale of investment is commonly much higher (mining) or lower (distribution) could potentially effect 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 were excluded to increase the comparability of the sample.

The most common partner for MNEs in LDCs is a local private firm. Other partner combinations were not included in the sample because they were 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 were one-shot, projected oriented ventures (sometimes known as fade-out joint ventures) and ventures in which the parent company viewed its involvement purely as a portfolio-like investment.

Incorporated into this research were 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 later variables are related to performance using improved data collection and analysis procedures.

2. Key Variables

The largest part of this research investigated the effect on joint-venture performance of two variables to which other researchers had paid limited attention -- need and commitment. It was hypothesized 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 had 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 were developed. The literature examined included both joint-venture and international business literature, and literature adapted from other disciplines such as organizational behaviour and management-information systems. These other disciplines were specifically examined for assistance in defining and measuring commitment. The need and commitment results were combined to form a managerial guideline for the establishment of successful joint ventures in LDCs. The causal inferences underlying this guideline were evaluated.

The dependent variable -- joint-venture performance -- was 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 was considered. Because partners sometimes differed 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 underlay the discussion of success in this research. Seven of the 12 core ventures were classed as satisfactory performers using this system.

The research also investigated the effects of a number of independent variables, (e.g., ownership, control) that had been considered important by researchers examining joint-venture performance primarily in developed countries. Investigation of their effect upon performance represented 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.

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 chapter following. In considering methodology, the research question, the research design employed, and the data collection process are detailed.

The first conclusion notes that characteristics of joint ventures in LDCs differ from those in joint ventures 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. There was support for the observation from the literature (6) 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 are that both partner need and commitment proved to be good predictors of both satisfactory and unsatisfactory joint-venture performance. For example, there was 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 his knowledge of the local economy, politics and customs.

The last major conclusion was that joint-equity ventures do have a role in the theory of the multinational enterprise. With few exceptions (7)(8), 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.

CHAPTER ONE NOTES

(1) James W. Vaupel and Joan P. Curhan, The World's Multinational Enterprises (Boston: Harvard University, 1973), p. 267, 295.

(2) Allen R. Janger, Organization of International Joint Ventures (New York: The Converence Board, 1980), p.3.

(3) Lawrence G. Franko, The European Multinationals (New York: Harper & Row, 1976), p. 121

(4) Mark Casson, Alternatives to the Multinational Enterprise (New York: Holmes & Meier Publishers, 1979), p. 84.

(5) S.R. Raveed and W. Renforth, "State Enterprise - Multinational Corporation Joint Ventures: How Well Do They Meet Both Partners' Needs?", Management International Review (1, 1983), p.56.

(6) James W. C. Tomlinson, The Joint Venture Process in International Business (Cambridge, Mass.: MIT Press, 1970), p. 147.

(7) Louis T. Wells, Jr., Third World Multinationals: The Rise of Foreign Investment from Developing Countries (Cambridge, Mass.: MIT Press, 1983).

(8) John A. Stuckey, Vertical Integration and Joint Ventures in the Aluminum Industry (Cambridge, Mass.: Harvard University Press, 1983).

II. THE RESEARCH METHODOLOGY

1. Introduction

Research proceeded through several phases, according to theory-building and theory-testing stages. The multi-stage, multi-method research design employed the systematic, observational method advocated by Weick (1) and a slightly modified research framework from strategic management, provided by Schendel and Hofer. (2)

Given the dearth of information in the literature on joint-venture performance (see Chapter 3), the initial stages of the research were exploratory in nature. Of the 15 months spent collecting data, 10 months were spent in exploration, concept development, and hypothesis generation. Both a pilot survey and a questionnaire pre-test were conducted during this period. After 10 months, the research had progressed to the point that the researcher felt, with some confidence, that the right variables had been determined. The remaining five months were used for hypothesis testing. The questions to be answered at this stage included: (a) whether the model of joint-venture performance, which was developed after the exploratory period, was valid (internal validity); and (b) in which LDCs and for which types of joint ventures did the model apply (external validity)?

Findings from all stages of the research are reported. However, the majority of the findings reported are from the hypothesis-testing stage, where in-depth study took place. Where possible, both partners and the general manager were interviewed in 12 core ventures. This is in contrast to the exploratory discussions that characterized the interviews in the initial stages, during which, generally only the MNE partner was interviewed.

The questionnaires administered in the core ventures lent themselves to non-parametric statistical analysis of data. Although questionnaire findings from the 12 core ventures are emphasized, they are supplemented by interview comments from 46 senior executives regarding a total of 66 joint ventures located in 27 developing countries.

2. The Research Design

2.1 The Organizing Paradigm

Schendel and Hofer provided a paradigm that splits research into theory building and theory testing, evolving through a total of five steps. Theory building comprised three types of research: exploration, concept development, and hypothesis generation. This was followed by the testing, first of internal, then of external validity. The description of each of these five steps included six characteristics of the research process: purpose, nature of the research question, nature of the research design, data-gathering methods, data-analysis methods, and nature of the results. This framework, with slight modifications, will be used to present the process of this research. The framework details and supports, for example, sample size, sample characteristics, data-collection methods and data-analysis measures used in this research.

The multi-stage methodology adopted here was also consistent with the method suggested by Weick, (3) who noted,

> In the ideal sequence, the observer would start with the empirical approach, obtain extensive records of natural events, induce some concepts from the records (probably after they had undergone a crude transformation), and then collect a second set of records which are more specific and pointed more directly at the induced concept.

2.2 The Data Collection Process

A general, seven-stage model of data collection was formulated and then applied to the specific problem of joint-venture performance in developing countries. The seven stages: (i) developing lists of potential companies; (ii) locating the appropriate person in the company; (iii) verifying that the company fits design; (iv) "selling" the research, (v) the interview; (vi) interview follow-up, and (vii) analysis and assessment.

The first step was to develop lists of joint ventures operating in LDCs. A variety of public and personal sources were used. There was a bias in the firms contacted toward larger, publicly held multinational enterprises. At each stage, a number of pitfalls were encountered. For example, it was discovered that an African government required permits to conduct research in their country. Given the delays which might be involved in receiving such permission, focus shifted to other countries. Here other problems were encountered. For example, some Caribbean LDCs had insufficient numbers of joint ventures. In another African country, where there were sufficient numbers of joint ventures, the researcher was advised by executives to avoid travel there, since the capital city was particularly expensive, slow to travel in, and sometimes dangerous.

Once the list of companies had been developed, the next step was to contact the company. The initial target contact in each firm was the vice-president-international. Contacting the regional manager first proved inefficient, since the vice-president's permission was ultimately required. The initial contact was usually by telephone. Unavoidable delays were encountered - results of executives being out of the country or organizational changes such as promotions and transfers.

After finally reaching the appropriate person by telephone, and before explaining in detail the purpose of the research, a further screening had to occur. It was necessary to verify that the firm did, in fact, have a joint venture with the required features (noted in Chapter 1). In many cases firms did not meet the requirements because sources of information were sometimes inaccurate. For example, a joint venture might be listed in the business directory as a manufacturer, but in reality act only as a distributor.

The fourth stage of data collection was to convince executives to meet with the researcher and answer some questions on potentially sensitive areas. Most of the executives contacted at this stage indicated a strong interest in the subject. Consequently, it was not particularly difficult to arrange an interview in the majority of cases. In other cases, more effort was needed to alleviate concerns about such things as confidentiality and time requirements.

The fifth stage of the process was the actual interview. During a typical interview, for about the first 15 minutes, the executive exhibited a reluctance to divulge information. Then, as if suddenly having made the decision to keep nothing back, there often began an outpouring of information, and many interviews went well beyond the length of time requested. Executives were normally so candid about the company's operations that one joint-venture general manager noted that, "If you tell the foreign parent what I've said, they'll fire me."

The sixth stage of the process was interview follow-up. After sending a letter of thanks, the interview notes were written up. With the core ventures, in most cases, several executives associated with it were interviewed. Thus, it was possible to validate what the executive had said during the interview or on the questionnaire. As a result, a number of repeat telephone calls were made to executives for clarification or verification of points made. Such a system of checks and balances served to provide a greater confidence in the results reported than research from a single perspective would permit.

The collation and analysis of material constituted the final step. Given the long time involved in proceeding through the seven stages, it is not surprising that one operates at different points in the process simultaneously. Also, in practice, one proceeds through the process with groups of companies, evaluating at the seventh stage whether another group of firms will be required. A final observation was that from stages one through five the number of potential ventures in the sample declines. However, during the interview itself, the executives often mentioned additional ventures in which they had been involved. This latter point was an unanticipated bonus of using personal interviews rather than a mail questionnaire. Table II-1 summarizes the data-collection model used in the research. It details the process, the pitfalls, sources, and aids.

Table II.I

JOINT VENTURE PERFORMANCE IN DEVELOPING COUNTRIES:
USING INTERVIEWS IN THE DATA COLLECTION PROCESS IN INTERNATIONAL BUSINESS

DEVELOPING COMPANY LEADS (1)	LOCATING THE RIGHT PERSON IN THE COMPANY (2)	SCREENING (3)	SELLING YOUR RESEARCH (4)	THE INTERVIEW (5)	INTERVIEW FOLLOW-UP (6)	COLLATE MATERIAL (7)	THE GENERAL MODEL ...
LOCATING MNE JOINT VENTURES OPERATING IN LDCs	LOCATING V.P. INTERNATIONAL OR REGIONAL MANAGER	VERIFYING THE COMPANY HAS/ HAD JVs WHICH FIT THE SAMPLE	CONVINCE EXECUTIVES TO SEE YOU AND ANSWER SOME SENSITIVE QUESTIONS	CONDUCT THE INTERVIEW	FOLLOW-UP ON THE INTERVIEW	CONDUCT ANALYSIS AND ASSESS	
CHECK EVERY SOURCE, PUBLISHED AND OTHERWISE, TO FIND COUNTRIES WITH SUFFICIENT FOREIGN JVs IN SECTORS CHOSEN	USUALLY VIA THE CORPORATE HEAD OFFICE, GET NAMES, ADDRESSES AND TELEPHONE NUMBERS OF RELEVANT PEOPLE FOR INITIAL CONTACT	IN THIS CASE, FIRST STEP WAS TO EXPLAIN BRIEFLY NATURE OF RESEARCH AND THEN ASK IF JV IS/WAS a. IN MANUFACTURING (RATHER THAN SERVICE, MINING, DISTRIBUTION) b. IN OPERATION MORE THAN THREE YEARS c. WITH A LOCAL PRIVATE PARTNER	1) EMPHASIZE a. THE RELEVANCE OF THE RESEARCH b. THE SHORT AMOUNT OF THEIR TIME REQUIRED c. THAT ALL INFORMATION IS CONFIDENTIAL d. THAT YOU ARE ASSOCIATED WITH A BUSINESS SCHOOL e. YOU WILL PROVIDE A QUID PRO QUO 2) SET DATE AND TIME. WRITE THEM USING LETTERHEAD PAPER TO REAFFIRM OBJECTIVES AND CONFIRM DATE OF MEETING	AT START OF INTERVIEW, THANK EXECUTIVE AND CLARIFY EXACTLY WHAT YOU HOPE TO COVER DURING YOUR MEETING. ASK FOR PERMISSION TO TAKE NOTES. SPECIFY AMOUNT OF TIME YOU EXPECT THE MEETING TO LAST.	IMMEDIATELY 1) SEND THANK-YOU LETTER AND OTHER MATERIALS (I.E. WORKING PAPERS) PROMISED DURING MEETING 2) WRITE UP INTERVIEW NOTES 3) MAKE REPEAT CALLS FOR CLARIFICATION/VERIFICATION OF MISCELLANEOUS POINTS	CONDUCT PRELIMINARY ANALYSIS OF THE SERIES OF INTERVIEWS. ASSESS WHETHER THE DATA IS SUFFICIENT FOR YOUR NEEDS	THE PROCESS

Table II.1 (cont'd)

JOINT VENTURE PERFORMANCE IN DEVELOPING COUNTRIES
USING INTERVIEWS IN THE DATA COLLECTION PROCESS IN INTERNATIONAL BUSINESS

	(1) LDC RELATED	(2)	(3) MNE RELATED	(4)	(5)	(6) RESEARCH RELATED	(7)
PITFALLS	-SOME LDCs REQUIRE PERMITS TO CONDUCT RESEARCH -SOME LDCs DO NOT HAVE SUFFICIENT NUMBERS OF FOREIGN JVs IN PARTICULAR SECTORS -SOME LDCs ARE DEEMED TOO UNSTABLE TO VISIT	-APPROPRIATE PERSON IS OFTEN OUT OF COUNTRY OR HAS QUIT OR LEFT THE COMPANY -HEAD OFFICE OFTEN DIRECTS YOU TO WRONG PEOPLE (I.E. PUBLIC RELATIONS DEPT.)	-THEIR VENTURE DOES NOT FIT YOUR REQUIREMENTS	-COMPANY EXECUTIVE TOO BUSY (I.E. YEAR END) -COMPANY CAN'T BE BOTHERED -COMPANY IS TOO CONCERNED ABOUT CONFIDENTIALITY -THERE MAY NOT BE ANYONE IN COMPANY ABLE TO ANSWER ALL QUESTIONS (I.E. ON HISTORY) DUE TO STAFF TURNOVER	-EXECUTIVE TOO BUSY TO GIVE YOU THE TIME YOU REQUIRE -EXECUTIVE WILL NOT ANSWER ALL YOUR QUESTIONS -EXECUTIVE DOESN'T UNDERSTAND YOUR QUESTIONS (PARTICULARLY LOCAL MANAGERS) -EXECUTIVE CAN'T RECALL DETAILS	-DELAYED WRITE-UP OF INTERVIEW NOTES DUE TO TOO MANY INTERVIEWS BEING CONDUCTED AT SAME TIME -NORMAL DIFFICULTIES IN CONTACTING INTERNATIONAL EXECUTIVES	SINCE THE ENTIRE 7-STAGE PROCESS TAKES SO LONG, IT IS POSSIBLE TO DISCOVER MONTHS AFTER YOU HAVE STARTED DATA COLLECTION, THAT EVEN MORE DATA WILL BE REQUIRED
SOURCES/AIDS	1. STOPFORD, DUNNING & HABERICH "THE WORLD'S MULTINATIONAL ENTERPRISES" 2. INTERNATIONAL MANAGEMENT COURSE PARTICIPANTS 3. "DIRECTORY OF AMERICAN FIRMS OPERATING IN FOREIGN COUNTRIES" (1979) 4. DUN AND BRADSTREET INTERNATIONAL GUIDE 5. FINANCIAL POST BASIC INFORMATION CORPORATION SERVICE 6. OTHER RESEARCHERS, FACULTY, PERSONAL BUSINESS CONTACTS.	1. TELEPHONE DIRECTORIES 2. ANNUAL REPORTS 3. SEE STAGE (1)	N/A	SEND PUBLICATIONS (FROM FACULTY MEMBERS) ON RELATED SUBJECTS.	N.B. THE PRESENCE OF TAPE RECORDERS ARE NOT ACCEPTABLE TO EXECUTIVES WHEN DEALING WITH SENSITIVE MATTERS. CARRY SOME SORT OF UNIVERSITY IDENTIFICATION SINCE SEVERAL EXECUTIVES WERE SUSPICIOUS.	IN THIS RESEARCH, BOTH PARTNERS AND THE GM CONNECTED WITH EACH VENTURE WERE CONTACTED. THIS PROVIDED A BASIS FOR COMPARISON OF "FACTS" SUPPLIED BY THE LATER PERSONS INTERVIEWED	N/A

POOR PRINT
Epreuve illisible

2.3 Actual Data Collection

The actual data collection took place from August 1981 to October 1982. Forty-six interviews in five countries -- Canada, the United States, England, and two Caribbean nations -- were conducted. These 46 interviews, which averaged more than three hours in length each, were, with five exceptions, conducted in person. The other five interviews took place by telephone. The number of interviews, number of joint ventures, and location of each venture for each of the data-collection phases are summarized in Table II-2.

Table II-2

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) Theory-Testing (27)	17	5	22
TOTAL (46)	20	46	66

NOTES: (a) Sample from Pre-Test is slightly biased toward LDC-based joint ventures located in the Americas.

(b) There is substantial detail available on 12 of the 22 ventures in the third data collection phase.

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% of cases where the interviewer was able to establish that the companies' venture fit the sample design. The prime reason for non-participation of the other 10% of firms was because of managers' admitted bias against research on their businesses' performance. Since firms much prefer to talk about their successful, still-operating ventures, a number of managers who were contacted did not wish to discuss their failed ventures.

3. The Samples

Previous research on joint venture performance indicated that the link between dominant control by the MNE and positive joint-venture performance is weaker in developing countries than developed countries. This suggests the possibility of different joint-venture populations, depending on countries' stages of development. As a result, it seemed appropriate to begin the research by seeing if differences existed among the basic characteristics of joint ventures in developed and developing countries. (The detailed discussion regarding actual differences in the basic characteristics is found in Chapter IV; a description of the research process follows here). The characteristics of interest included reasons for forming joint ventures, performance, stability, autonomy, ownership, and control. These were all areas in which data were available in the literature on joint-venture samples in developed countries.

3.1 Pilot Survey Phase

In studying the differences between developed-country joint ventures and developing-country joint ventures, executives from seven major Canadian multinationals were interviewed. The Canadian multinationals included in the sample were among the world's largest MNEs (4) and had to satisfy certain other criteria. Firms were contacted for pilot survey interviews if they were manufacturers, operated joint ventures in developing countries, and were located close to the interviewer. Data were gathered on their experiences with 34 manufacturing joint ventures in 21 less developed countries. Short case histories were compiled on the joint-venture experiences of these firms. Also, comments on the subject of joint ventures in LDCs were solicited from representatives of eight other organizations, including both government and business.

The first part of these exploratory interviews was relatively unstructured; executives were asked to describe the history of each venture as well as the major problems encountered in each. The second part of these interviews was more structured. If the executives had not already mentioned it, they were asked about their reasons for forming joint ventures, and about performance, stability, autonomy, ownership, and control. The results of these interviews (discussed in detail ~~in~~ Chapter IV) indicated that, based on the samples noted, joint-venture populations in the developed and developing countries differ.

When the problems and characteristics of the highest- and lowest-performing ventures were compared, most of the problems could be related to whether there existed (a) mutual long-term need between the partners and

(b) commitment of the partners to the use of the joint-venture structure in an international context. When the data were categorized this way, a clear pattern with respect to joint-venture performance resulted.

3.2 Pre-Test Phase

With the tentative identification of the importance of need and commitment in explaining joint-venture performance, the research moved beyond the exploratory stage to concept development and hypothesis generation. The second of three data collection phases -- the pre-test -- was conducted.

The purpose of this phase was explicitly to question executives regarding the usefulness of need and commitment in explaining joint-venture performance. A series of questions was designed -- based on previous interviews and the literature -- to examine preliminary hypotheses about the relevance of need and commitment. A questionnaire was developed and tested on foreign business students for English-language clarity and subject comprehensiveness to increase the reliability of response.

To conduct the pre-test, examination was made of Dun and Bradstreet Guides to find LDCs in which more than one joint venture in the same industry operated. Twelve interviews were conducted in five Canadian and U.S. MNEs operating in several industries in, primarily, two countries in South America and Africa. The results of these interviews and the self-administered questionnaires supported the importance of on-going partner need and commitment in achieving success.

At this point, nearly 20 interviews regarding more than 40 joint ventures in developing countries had been completed. The research hypotheses were refined, and data collection for the theory-testing phase could commence.

3.3 Theory-Testing Phase

The final phase of the research examined the experience of 13 MNEs with 22 joint ventures in LDCs. The research placed major emphasis on 12 core ventures. (The remaining 10 ventures were usually other ventures in which the MNE partners from the core ventures were participants). As in the earlier phases, core ventures were carefully selected to be representative of common types of joint ventures in LDCs. Focus was placed on manufacturers that had been in operation for at least three years. All of the ventures were between a U.S., U.K., or Canadian MNE and a private, local firm.

In addition, both high and low performers in the same industry and same country were examined. Even though this required a longer search for companies, holding industry and country constant was considered an important step in reducing the number of rival explanations of joint venture performance.

An attempt was made to find multinational firms that employed a variety of strategies. Fayerweather's (5) system of categorizing multinational firms was used to this end. The 12 core ventures were about equally divided between two of Fayerweather's four categories -- the stable or low-technology model, and the advanced managerial skill model. None of the core ventures seemed to fit his dynamic-high-technology model or unified-logistic-labour-transmission model. The core ventures were split between food processors and producers of non-durable consumer items designed to serve the domestic market. These industries would both fall within Dunning's (6) 'less technology-intensive sectors, and are typical of foreign investment in LDCs. All of the joint ventures in these industries were sampled.

The research used structured interviews and a self-administered questionnaire. These questionnaires were administered with the researcher present, and any questions could be immediately clarified. This also permitted the checking of responses to ensure consistency with comments made earlier in the interview. Notes from these interviews, which expand the meaning of questionnaire responses, are interspersed throughout subsequent chapters.

Seven of the 12 core ventures were located in a single Caribbean country. The balance was in three other Caribbean countries and in two additional developing countries. The names of the countries are not provided so as to ensure the confidentiality of the firms involved. The Caribbean country was chosen as the initial source country since it was an English-speaking LDC and had sufficient numbers of private joint ventures to permit comparison of high- and low-performing ventures in at least two industry sectors. Other developing countries such as Kenya and Nigeria were considered, but in each case it proved too difficult to locate pairs of private, manufacturing joint ventures. The original design called for comparative case studies of one high and one low performer in each of two sectors. However, since performance often could not be assessed until both partners had been interviewed, it was necessary to approach a larger number of companies to ensure adequate pairing. When additional companies expressed their willingness to cooperate in the research, the sample size increased, permitting non-parametric statistical analysis.

The number of core ventures also expanded to include those in other developing countries. Both a high- and low-performing venture was found in each industry in countries outside the main Caribbean country. Although sample size had increased, both a high- and low-performing venture in the same industry was still sought to reduce the possibility of a venture being successful because it was in a near-monopoly position. Overall, seven of the 12 core ventures were classified as unsatisfactory performers and five as satisfactory performers. All of the ventures in each group were analyzed and compared together rather than in pairs, because of the larger sample size.

For each of these core ventures, one or more interviews and questionnaires were completed. Twenty-four interviews were conducted: 11 with multinational parent-company executives, six with MNE supplied joint-venture general managers, four with local partners, and three with executives who were both the local partner and general manager. Eighteen questionnaires were completed by these executives: eleven were from the MNE, four from MNE-supplied general managers, and three from the executive who was both local partner and general manager (see Table II-3 for a summary of the interview/questionnaire responses).

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 in joint-venture performance. This is important because it provides a more balanced picture of the actual operation of the joint venture and increases confidence in the research findings.

Table II-3

Interviews Conducted (Questionnaires Completed) in the 12 Core Ventures

	MNE*	MNE Supplied GM	Local Partners (LP)	Both LP and GM	Total
Main Caribbean Country n = 7	6 (6)**	5 (3)	3 (0)	3 (3)	17 (12)
Other LDCs n = 5	5 (5)	1 (1)	1 (0)	0 (0)	7 (6)
Total Core Ventures n = 12	11 (11)	6 (4)	4 (0)	3 (3)	24 (18)

* In some cases multinational executives were interviewed only or completed the questionnaire only.

** Figure in brackets represents the questionnaires completed; figure before the brackets represents the interviews conducted.

3.4 Sample Characteristics

The results from the different data-collection stages in the LDC research are aggregated in Table II-4. It details 15 characteristics of the joint-venture samples. The characteristics from the core ventures are discussed in detail because this is the area in which most data were collected and on which most of the findings are based. A number of the characteristics briefly noted here will be subsequently discussed in greater detail.

The sample of joint ventures was not a random sample of the joint ventures in the region. A stratified sample of joint ventures between foreign private and local private firms, primarily in one country, was used. The sampling process focussed on two sectors considered to be typical of joint ventures in LDCs.

There has been substantial foreign direct investment in the Caribbean region from four major countries or regions: the United States, England, Canada, and, to a lesser extent, other regional developing countries. In the 12 core ventures, the foreign parent was from one of these three developed countries.

In the core ventures, average annual sales were US $4.5 million, and all of the 12 ventures had sales between US $1.0 and $10.0 million. There was no correlation between sales and performance. Five of the ventures sold to both industrial customers and consumers; two, to industrial customers only; and five, to consumers only. Half of the joint ventures exported, with no correlation between exporting and performance.

Average market share for the core ventures was 42%, with a high standard deviation. There was no correlation between market share and joint venture performance. The joint ventures had been formed between 1959-1978 and had been in operation an average of 11.5 years. There was no correlation between age and performance.

None of the core ventures had effective monopoly positions. Either local manufacturing competition existed, or tariffs were low enough to allow competitive import.

Few of the MNEs had over 50% of the equity in the core ventures; those that did tended to have performance problems. Interestingly, most of the

Table II-4: Characteristics of the Samples P. 1 of 3

Data Collection Stages	Economic Sector of Firms in Sample	Type of Partner	Entry Barriers	Technological Intensity	Market Segments Served	Country in which JVs located
Pilot Survey (n=34)	Secondary (100% Manufacturing)	Private (71%) Government (29%)	NDC	Less Technology Intensive (53%) More Technology Intensive (47%)	Industrial Customers Only (50%) Consumers Only (0%) Both (50%)	21 different LDCs
Pre-Test (n=10)	Primary (Mining 20%) Secondary (Manufacturing 60%) Tertiary (Service 20%)	Private (100%)	NDC	Less Technology Intensive (70%) More Technology Intensive (30%)	Industrial Only (0%) Consumers Only (50%) Both (50%)	4 different LDCs
Hypothesis Testing (n=22) made up of Non-Core Ventures (n=10)	Secondary (Manufacturing 100%)	Private (70%) Government (30%)	NDC	Less Technology Intensive (80%) More Technology Intensive (20%)	Industrial Only (20%) Consumer Only (40%) Both (40%)	7 different LDCs
and Core Ventures (n=12)	Secondary (Manufacturing 100%)	Local Private (100%)	Either local manufacturing competition existed, or tariffs were low enough to import over (no firms had been granted a monopoly by the local government)	Less Technology Intensive (83%) More Technology Intensive (17%)	Industrial Customers Only (16%) Consumers Only (42%) Both (42%)	10 JVs were in the Caribbean 2 JVs were outside the Caribbean

NDC = No Data Collected

Table II-4: Characteristics of the Samples (cont'd)

Data Collection Stages	How Firms Were Selected (Type of Sample)	Size of Venture (Annual Sales) and Market Share	Age of Joint Ventures
Pilot Survey (n=34)	"The World's Multinational Enterprises" by Stopford et al was examined to determine who were the largest Canadian MNEs. All those firms which were manufacturers, operated JVs in LDCs, and were in geographic proximity to the interviewer, were contacted for interviews. (Convenience sample, although firms did have to meet certain criteria.)	NDC	NDC
Pre-Test (n=10)	Examination was made of Dunn and Bradstreet Guides for LDCs in which there were located more than one JV in the same industry. Canadian and US MNEs operating in several industries in specific countries in South America and Africa were contacted.	NDC	JVs had been in operation an average of 10 years
Hypothesis Testing (n=12) made up of Non-Core Ventures (n=10)	In most cases, the JVs at this stage were other ventures which the MNE partners from the core ventures were participants in.	NDC	NDC
and Core Ventures (n=12)	Ventures were carefully selected to be representative of common types of JVs in LDCs. (A) Location - most ventures were located in countries in the mid-range of GNP for LDCs (B) Economic Sector and Industry - all were in manufacturing and most within two lesser technology sectors (C) Age - ventures had to have been in existence at least 3 years (D) Type of Local Partners - all ventures were between an MNE and private, local firm (E) Nationality of MNE Parent - UK, US, Canada (F) Performance - both high and low performers in same sector and country were examined. In fact, a census of JVs in these sectors in one country was used. (Stratified Sample)	Average sales were US $4.5M with 11 of 12 firms having sales between $1-$10M. Average market share was 42% (There was no correlation between size and performance or market share and performance)	All JVs had been in operation at least 3 years. The JVs had formed between 1959 -1978 and had been in operation an average of 11.5 years each. (There was no correlation between age and performance.)

NDC = No Data Collected

Table II-4: Characteristics of the Samples (cont'd)

Data Collection Stages	Ownership	JV Exports	Statistical Analysis Conducted	Staffing Policies	Instability Rate	Number of Multinational Parent Co. in Sample
Pilot Survey (n=34)	MNE partner was minority shareholder 79% of time	NDC	Frequencies Chi Square	NDC	14/34 =41%	7 different MNEs
Pre-Test (n=10)	MNE held minority share 90% of time	NDC	Frequencies	NDC	4/10 = 40%	5 different MNEs
Hypothesis Testing (n=22) made up of Non-Core Ventures (n=10)	MNE held minority share 60% of time	NDC	Frequencies	NDC	6/10 = 60%	
and Core Ventures (n=12)	MNE held minority (less than 50%) share 45% of time	Half of the JVs exported; up to 25% of sales. (There was no correlation between exporting and performance.)	Frequencies Chi Square Kolmogorov-Smirnov Reliability Analysis T-Test Multiple Regression	Staffed with expatriates in low performing JVs; with local managers in high performing JVs. Staffing policies were not changed in unsatisfactory performing ventures.	6/12 = 50%	13 different MNEs

NDC = No Data Collected

MNEs, while not having over 50% of the equity, were equal to or larger than their partners in relative shareholding.

As with the earlier samples, the instability rate was well above rates observed in developed-country samples (see Chapter IV for further discussion). The measure of stability included reorganizations as well as significant ownership changes. Those joint ventures undergoing reorganization did not, as a rule, change their staffing policies. The MNEs usually had a corporate policy of using expatriates or using local managers, and this was not affected by the joint venture's performance.

4. Data Analysis Methods

Different methods of data analysis were used to accommodate the variety of data-collection methods. For example, as previously noted, the problems detailed by executives in the pilot survey were compared on the basis of those occurring in high- versus low-performing ventures. Data analysis at this stage was primarily content analysis and frequency of response. As research progressed, methods of data collection and analysis became more refined, allowing an analysis of the need and commitment questionnaire responses for the core ventures, using non-parametric statistical tests.

Certain other statistics (internal consistency reliability, t-test, and multiple regression) were also employed in studying need and commitment. While the findings suffer from sample-size limitations, they are reported because, given the consistency of the results, they serve as further indicators that the research focus was relevant.

The two constructs believed significant in explaining joint venture performance -- partner need and commitment -- were measured respectively, using 15- and 16-item composite scales. The scales were tested for internal consistency reliability because "high reliability is a necessary, although not sufficient, condition for high validity."(7) Cronbach's Alpha was the reliability coefficient used as it provides a "good estimate of reliability in most situations since the major source of measurement error is because of the sampling of content."(8)

Another reason for calculating a reliability coefficient: if a high alpha is obtained (i.e., if it can be shown that most of the items do, in fact, measure the construct), then composite scores can be computed for each scale, permitting the use of parametric statistics. Adding 15 items together to get one measure provides what is very close to being an interval measure.

In an effort to discern whether there were differences in response between high- and low-performing ventures, a small-sample test of a difference in means was calculated. For the t-test, the one-tail test is used because of a hypothesized relationship between the particular construct and performance. Given that the t-test is used only as a further indicator of the importance of need and commitment, significance levels up to .10 are considered satisfactory.

Finally, multiple regression was used. The dependent variable was performance and the independent variables were need and commitment. Individual summated scores were used for these latter two variables.

The non-parametric statistical test chosen -- the Kolmogorov-Smirnov one-sample test -- "determines whether the scores in the sample can reasonably be thought to have come from a population having the theoretical distribution."(9) In this case the theoretical distribution was assumed to have equal frequency for each item score. This test allows us to determine whether an item was characteristic or uncharacteristic, or important or unimportant so often that (at a statistically significant level of confidence) this did not occur by chance.

The statistical test chosen was also used to advantage when the sample was split into two populations of high- and low-performing ventures. The test showed those results occurring with non-random frequency and how they were related to performance. Appendix 2 explains the test and presents a sample calculation.

An attempt was made to determine further whether the particular responses could have occurred by chance. The appropriateness of the Mann-Whitney U-test and the Kolmogorov-Smirnov Two-Sample Test (versus One-Sample Test) was examined in this context. These both test whether two samples have been drawn from the same population. In this case, the samples of high- and low-performing ventures would be tested to see if, in terms of need and commitment, they come from the same population.

Use of the Mann-Whitney U-Test proved inappropriate because of the problem of how to treat a large number of tied responses in a small sample. In addition, "for very small samples, the Kolmogorov-Smirnov test is slightly more efficient than the Mann-Whitney test."(10) With the Kolmogorov-Smirnov Two-Sample Test, the first problem encountered was that the sample sizes (seven high-performing ventures and five low performing ventures) were of different sizes, thus violating one of the preconditions of this test. This could have been corrected by randomly choosing five responses for each questions from the seven high performers. While this would permit use of the test, it would also mean the loss of some data. The problem would then be that, since the sample sizes were smaller, it would prove extremely difficult to attain statistical significance. As a result of these constraints, results from the Kolmogorov-Smirnov One-Sample Test rather than the Two-Sample Test were used in the research.

Use of the Kolmogorov-Smirnov One-Sample Test in this research assumed in part that the seven high-performing ventures were one sample and the five low-performing ventures were a separate sample.

Further, each sample was considered independent of the need and commitment statements which were examined. Use of Kolmogorov-Smirnov was appropriate because the sample was representative of the population of joint ventures.

The potential claim could theoretically exist that, in those ventures performing well, the foreign partners were more generous in their assessment of their need for the local partner than they would have been if the venture had been performing poorly. However, in several of the low-performing ventures the foreign partner was pleased with the venture's performance. These ventures were classed as low performers because the local partner was not satisfied with the venture's performance (he was generally making a much lower return on investment that the foreign partner). Consequently, because the performance measure which was used controlled for such potential issues of bias, a strong case cannot be made that certain responses were given because the venture performance was satisfactory or unsatisfactory. On a related matter, Chapter 10 subsequently moves beyond this examination of potential bias in the performance measure to a thorough evaluation of the causal inference.

Conclusion

With this background on the methodology, and sample characteristics from the different stages of the research, attention now shifts to an examination of the joint-venture characteristic of greatest interest, the dependent variable performance.

CHAPTER TWO NOTES

(1) K.E. Weick, "Systematic Observational Methods", Chapter 13 in The Handbook of Social Psychology II (Reading, Mass.: Addison-Wesley, 1968).

(2) Dan Schendel and C.W. Hofer, "Theory Building and Theory Testing in Strategic Management", Strategic Management (Toronto: Little Brown and Co., 1979), p. 385.

(3) Weick, op. cit., p. 402.

(4) John M. Stopford, John H. Dunning and Klaus O. Haberich, The World Directory of Multinational Enterprises (London: Macmillan, 1980).

(5) John Fayerweather, "Four Winning Strategies for the International Corporation", Journal of Business Strategy (1981, 2), pp. 25-36.

(6) John H. Dunning, International Production and the Multinational Enterprise (London: George Allen and Unwin, 1981).

(7) Jum C. Nunnally, Psychometric Theory (2nd ed.; Toronto: McGraw-Hill, 1978), p. 230.

(8) Ibid.

(9) Sydney Siegal, Non Parametric Statistics for the Behavioral Sciences (Toronto: McGraw-Hill, 1956), p. 47.

(10) Ibid., p. 136.

III. PERFORMANCE: LITERATURE AND MEASURES

The joint-venture characteristic of greatest interest to both managers and researchers is performance. Most of the existing research on joint ventures is normative, related in one way or another to performance. Yet, the amount of research in which the impact of these prescriptions is directly assessed against a measure of performance is limited, particularly for joint ventures in developing countries. In addition, some of the few measures of performance used previously require improvement.

1. General Joint-Venture Literature

The earliest major joint-venture study was conducted by Friedmann and Kalmanoff between 1956-61. The general objective of this Columbia University Law School study was to convey information about joint ventures -- "a vital aspect of contemporary international relations."(1) The authors provided examples of the existence, types, and operations of joint ventures in 12, primarily less-developed country studies. The research conclusions were of a general nature with emphasis on the value of mutual understanding.

Ten years later Friedmann, this time with Beguin, published a follow-up study on joint ventures in LDCs. This new book included chapters on general observations regarding joint ventures, attitudes toward joint ventures, and on management control; however most of it was devoted to case studies of different industrial segments in a variety of countries. The intent of the book was to assist in "the appreciation of the modalities, the benefits, and the risks of joint international business ventures."(2)

To this end, cases were chosen to represent the greatest possible variety of types of joint ventures. While not clarifying their performance measure, the authors briefly noted certain elements that they felt could, in many cases, contribute to joint-venture success. The authors favoured (a) the use of a public issue of shares; (b) the extensive employment of nationals; (c) a judicious choice of partners; and (d) the flexibility of the joint venture format in offering a diversity of potential legal and financial structures, which could be tailored to local conditions. Like the previous Friedmann text, this book provided neither a focus on, nor comprehensive analysis or interpretation of, the managerial problems present in joint ventures.

A third major study, Harvard's Multinational Enterprise Project (3) found that 45% of 3,811 foreign manufacturing subsidiaries of large enterprises based in 12 developed countries were joint ventures. More recent research stressed that "most of the Fortune 500 companies ... are engaged in one or more international joint ventures ... and the number of ventures appears to be increasing".(4)

The use of joint ventures in less-developed countries is even higher. More than half of 2,379 foreign manufacturing subsidiaries (5) of large enterprises in LDCs were joint ventures. Joint ventures, not wholly-owned subsidiaries, were shown to be the dominant form of business organization for multinational enterprises in the developing countries.

Another study, again part of Harvard's Multinational Enterprise Project, was that of Stopford and Wells. This study examined two issues: the strategy-structure relationship in multinational firms, and the decision to include local partners in the firms' foreign operations. The authors concluded that variations in attitudes and actions toward having a partner "can be understood as a rational response of different kinds of enterprises to the costs and benefits that are associated with such arrangements."(6) While this research was useful in identifying some of the important issues connected with MNE ownership policies, joint-venture performance was not directly measured.

2. The Joint-Venture Performance Literature

While most of the published work on joint ventures has not directly focussed on explaining performance, at least three authors have provided data on the subject. Using the Harvard Multinational Enterprise Project data base, Franko (7) attempted to explain the corporate tolerance of American MNEs for manufacturing joint ventures with foreign partners. Tolerance was measured by the rate of instability, which was defined as those cases where the holdings of the MNE crossed the 50% or 95% ownership lines, the interests of the MNE were sold, or the venture was liquidated. Implicit in his research was that joint-venture stability was preferable to joint-venture instability. Franko concluded that a strategy of product diversity with a worldwide product-division structure resulted in MNE tolerance for joint ventures, while a product-concentration strategy with an area organizational structure resulted in MNE intolerance for joint ventures. Overall, he observed a 30% instability rate.

Killing, (8) researching in developed countries, measured performance using both a modified measure of stability as well as a managerial assessment. He found the rates of instability and unsatisfactory performance were 30% and 36% respectively.

A recent Conference Board study (9), based on executives' own rating of their companies' joint-venture performance, found approximately 37% of the joint ventures being rated as poorer performers than the companies' wholly-owned subsidiaries. This Conference Board study combined joint-venture results from both developed and developing countries. It did not separate out any differences in performance between the two groups of countries.

Evidence indicates even poorer performance of joint ventures in LDCs than in developed countries. As will be subsequently discussed in more detail, research on the experience of Canadian, U.K., and U.S. multinationals with 66 joint ventures solely in LDCs found an instability rate of 45% -- the highest rate yet reported. When executives' own evaluation of their joint ventures was substituted for stability rate, the percentage of firms classed as unsatisfactory performers climbed to 61%. Whichever measure of performance is used, levels of performance seem to be worse in the developing countries. Further, the literature provides little insight into ways of improving joint-venture performance.

3. The Performance Measure

The first measure of joint-venture performance considered for use in this research was stability, used previously by Franko. There are, however, serious problems with using stability rate to measure performance. For example, a business which was performing well could, with a slight ownership change (i.e., from 49% to 51%), be suddenly classed as unstable, with all of the negative performance connotations. Ownership changes can quite conceivably be both intentional and desirable. Also, ventures which have been reorganized (usually in a turnaround situation) can quite easily be satisfactory performers. Three of the 12 core ventures would fit this category. Consequently, it would be inappropriate to class reorganized ventures as unstable, as previous research would have done. Thus, although stability had been measured in the pilot survey, it had too many deficiencies for subsequent use.

Consideration was also given to assessing management's satisfaction with a number of individual items. The items included both those internal to the host country (assessments of market share, export level, staffing issues, and the frequency to which the management agreement was referred) and external ones (assessments of the amount of parent-company management time the venture required, its performance relative to other ventures, and whether it satisfied the purpose for which it was established). During the early stages of data collection, executives noted that they did make an overall assessment of their relative satisfaction with performance. The executives generally avoided assessing individual items, although they mentioned as important such things as image in the marketplace, growth, and market share. Since individual questions were covered elsewhere in the research, an overall assessment was used as the first part of the performance measure. Janger had previously used foreign-partner managerial assessment as a measure of joint-venture performance.

Use of only a foreign-partner (MNE) managerial assessment represents an incomplete method of assessing joint-venture performance. Since joint ventures are jointly owned, it is reasonable to examine whether both partners were satisfied with performance. Because one partner is a local firm and one is a foreign firm, we would expect differences in how performance might be assessed. In the country where the joint venture was located, the MNE partners were never strictly dependent on local earnings in determining their overall return (see Table III-1); however, venture profits were often the only source of revenue for local partners. The foreign partner, therefore, might still be earning a good overall return from the business (i.e., through raw material sales, royalties, etc.) when the venture itself was generating little, if any, profit. This did, in fact, occur in a number of cases. In one case, a multinational executive (not from a core case) noted: "in the local country, unknown to our partner, we mark up the raw product we sell into the venture. This differs from over-invoicing since we need this profit to compensate for losses due to theft and customs delay." In another case, the general manager claimed he could run it on a break-even basis in the local country and the parent company would still find it lucrative. In these latter cases, the local partners were not satisfied with the performance of the venture.

Those joint ventures in which at least one partner is unsatisfied with performance are considered unsatisfactory performers. This measure had been used in previous joint-venture research by Schaan. Overall, of the 12 core ventures, seven were classed as satisfactory performers using this system. The satisfactory and unsatisfactory performers were split about equally between those in the major Caribbean country and other LDCs. The ventures can be further subdivided into satisfactory and unsatisfactory performers according to differences in partner assessment of performance (see Table III-2).

TABLE III-1

Sources of Revenue and Levels of Return in the 12 Core Ventures

		Dividends	Management Fees	Technical Service Fees	Royalties	Other (Specify)	ROE*
1	Foreign Partner	+	+	-	-	Other services	20%
	Local Partner	+	-	-	-	-	20%
2	Foreign Partner	+	-	+	+	-	25%
	Local Partner	+	-	-	-	Salary	20%+
3	Foreign Partner	+	-	-	+	Distribution	20%
	Local Partner	+	-	-	-	-	<10%
4	Foreign Partner	+	+	+	+	-	20%
	Local Partner	+	-	-	-	Distribution	(Loss)
5	Foreign Partner	+	-	-	-	Sales to JV	50%
	Local Partner	+	-	-	-	Distribution	(High)
6	Foreign Partner	+	-	+	+	Other services	20%+
	Local Partner	+	-	-	-	-Salary -Import Commissions	(Substantial)
7	Foreign Partner	+	+	+	-	-	15%
	Local Partner	+	-	-	-	-	< 5%
8	Foreign Partner	+	+	-	+	Sales to JV	50%+
	Local Partner	+	-	-	-	-	(Loss)
9	Foreign Partner	+	-	+	-	-	(Loss)
	Local Partner	+	+	-	-	-	Unknown
10	Foreign Partner	+	-	-	-	Sales to JV	15%+
	Local Partner	+	+	-	-	-	20%
11	Foreign Partner	+	-	+	+	-	50%
	Local Partner	+	+	-	-	-	30%
12	Foreign Partner	+	-	+	+	-	20%
	Local Partner	+	+	-	-	-	20%

Code: + denotes source of revenue; - denotes not a source of revenue.

* ROE is after tax profits plus royalty payments for patents and brand names, technical service fees, management fees, and interest on intra-company debt; divided by equity, plus intra-company loans plus intra-company supplier's credit. ROE was estimated by the executives based on this formula.

TABLE III-2

Joint Venture Performance: Location - Mutual Response Measure

	Satisfactory		Unsatisfactory		
	Performance satisfactory to both partners	Performance had been unsatisfactory but later turned around	Performance unsatisfactory from one partner's perspective	Venture currently performing poorly or has ceased operations	Total
Major Caribbean Country	2	2	2	1	7
Other LDCs	2	1	1	1	5
Total	4	3	3	2	12

Joint managerial assessment was the sole performance measure used in the core ventures. Financial performance data were also collected for each venture, but not incorporated into the overall measure. Incorporating a financial measure into the overall performance measure presented three problems.

First, financial measures may be, by themselves, incomplete to measure adequately performance. Businesses are established for diverse reasons, not always for the profit maximization of the joint venture. For example, at certain times a firm may attempt to emphasize its learning rather than profits, with an eye to gaining experience and visibility.(10) Or, alternatively, a business may be formed for defensive reasons, to prevent a competitor's market entry. A business can quite conceivably satisfy the purpose for which it was established, yet, when its performance is measured solely using financial criteria, appear to have failed. Within the core venture sample, however, the partners seemed to have a primary interest in improving their financial returns.

Second, using a financial measure requires choosing among the different ones available. "Total funds repatriated divided by total funds provided" was used for the calculations here. Parent company executives use this financial measure, and, of course, it incorporates the venture's local profit. Lecraw operationalized this as: "after tax profits plus royalty payments for patents and brand names, technical service fees, management fees, and interest on intra-company debt divided by equity plus intra-company loans plus intra-company supplier's credit."(11) A commonly used measure, repatriated profits, was not considered particularly useful, since nearly all of the foreign firms had other sources of income besides joint-venture profits (see Table III-1).

Third, using a financial measure of performance requires determining a cutoff rate that decides satisfactory or unsatisfactory performance. There is no single defensible rate of return, and the joint venture literature reviewed provides no applicable data. To approximate a satisfactory rate of return, two sources were considered. Rugman (12) reports that the return on equity of the largest multinational enterprises in the world for 1970-79 period was about 12-13 percent. If we assume that there are head office costs which slightly lower the effect of the individual subsidiaries' returns, then subsidiaries (including joint ventures) might be earning perhaps a 15 percent return. The other point of data available was the response to the question asking what rate of return satisfied the MNE partners. A number of executives specified 20 percent as a desired return.

As noted earlier, the overall performance measure used here did not include financial return. However, if it had, a strong correlation between the managerial assessment measure and the financial performance measure would result whether 15 percent or 20 percent was used as the cut-off rate. The classifications of all twelve ventures using managerial assessment remain unchanged when a financial measure was used which asks if each partner is earning a 15 percent return. Moving from a 15 percent to 20 percent return results in the reclassification of only one of the 12 joint ventures. These results, including a sensitivity analysis using other financial rates, are summarized in Table III-3. Also, subsequent statistical analysis relating performance to need and commitment resulted in only very minor changes in the significance levels of observations when the standard switched from fifteen to twenty percent return.

TABLE III-3

A Comparison of Performance Measures

	Joint* Managerial Assessment	Both Partners Earning at Least a 10% Return	Both Partners Earning at Least a 15% Return	Both Partners Earning at Least a 20% Return	Both Partners Earning at Least a 25% Return
Satisfactorily Performing Ventures	7	7	7	6	2
Unsatisfactorily Performing Ventures	5	5	5	6	10

* Ventures 1, 2, 5, 6, 10, 11, 12 in Table III-1 were jointly assessed as satisfactory performers.

Although a financial measure was not included as part of the overall measure in this research, the confidence we can attach to financial performance measures used inside a host country may be higher with joint ventures than wholly-owned subsidiaries. Since the local partner's income was normally based on the locally reported dividends of the business, he was less likely to provide the foreign partner with the opportunity to minimize profits through transfer payments as is frequently done with wholly-owned subsidiaries.

Having developed a more complete view of performance measurement, attention moved to an aspect emphasized by many previous joint-venture researchers -- the performance-control relationship.

CHAPTER THREE NOTES

(1) W.G. Friedmann and G. Kalmanoff, Joint International Business Ventures (New York: Columbia University Press, 1961), p. v.

(2) W.G. Friedmann and J.P. Beguin, Joint International Business Ventures in Developing Countries (New York: Columbia University Press, 1971), p. vii.

(3) James W. Vaupel and Joan P. Curhan, The World's Multinational Enterprises (Boston: Harvard University, 1973), p. 295.

(4) Allen R. Janger, Organization of International Joint Ventures (New York: The Conference Board, 1980), p. 1.

(5) Lawrence G. Franko, The European Multinationals (New York: Harper and Row, 1976), p. 121.

(6) John M. Stopford and Louis T. Wells, Jr., Managing the Multinational Enterprise (New York: Basic Books, 1972), p. 101.

(7) Franko, op. cit.

(8) J. Peter Killing, Strategies for Joint Venture Success (New York: Praeger, 1983).

(9) Janger, op. cit., p. 3.

(10) Stephen E. Roulac, "Structuring the Joint Venture," Mergers and Acquisitions (Spring, 1980), p. 9.

(11) Donald J. Lecraw, "Performance of Transnational Corporations in Less-Developed Countries," Journal of International Business Studies (Spring/Summer 1983), p. 27.

(12) Alan M. Rugman, "Risk and Return in the World's Largest Multinational Enterprises," Proceedings of the 1983 ASAC Conference (University of British Columbia, 1983), p. 257.

IV. CONTROL: LITERATURE, MEASUREMENT AND RELATIONSHIP TO PERFORMANCE

The most common variable discussed in conjunction with performance in the joint venture literature was control. The findings of various authors are reviewed, since they placed differing emphases on the effect of control on performance. Control was then measured in this LDC-based sample.

Major differences were observed in the characteristics - including control - of joint ventures in developed and developing countries. This suggests that the focus on control for understanding joint-venture performance in developed countries may not necessarily be appropriate in LDCs.

1. The Control Literature

In his study of 36 joint ventures in developed countries, Killing (1) defined control in terms of the decision-making role of joint-venture management, that is, whether an active or passive role. Here control was measured by administering a questionnaire in which managers were asked to assess the "jointness" of decision-making regarding nine decisions (product pricing, product design, production scheduling, production process, quality standards, replacing a functional manager, budget sales target, budget cost targets, and budget capital expenditures). To assess the "jointness" of decision-making, six categories of decisions were considered (made by joint venture executives alone, made by joint venture executives with input from local parent, made by joint venture executives with input from foreign parent, made by local parent alone, made by foreign parent alone, made jointly by parents). Then, depending on the response, ventures were classified as dominant, shared, or independently controlled. If six or more of the nine decisions were made by the joint venture executives alone, the venture was considered independent. If five or more decisions were made jointly by parents, or made by joint venture executives with input from both parents, the venture was classed as shared management. Then, scoring one for a decision made by a parent alone, and one-half for a decision made by a parent with the joint venture executive, if the difference was less than 1.6 times the other, it was also a shared management venture. Otherwise it was considered a dominant-management joint venture.

The performance of dominant-parent ventures -- those in which one parent plays a strong decision-making role and the other partner a minor one -- were considered to be higher than shared management ventures. Table IV-1 correlates joint venture performance with the aggregate measure of control for Killing's sample, using a chi-square analysis. (Depending on the number of cells with expected frequencies less than five, Fisher's exact test is sometimes reported in subsequent calculations in this chapter).

Table IV-1

Performance - Aggregate Control in Killing's Developed Country Sample

	Dominant	Shared
Unsatisfactory	3	11
Satisfactory	10	9

Corrected Chi-square - 2.11 with 1 degree of freedom. Significance = .146.
Data derived from Table 2.2 of Strategies for Joint Venture Success.

Because two major detriments to joint-venture performance -- use of functional executives from the passive parent, and a major role played by the board of directors -- have been removed in dominant-parent ventures, they are easier to manage than shared-management ventures, hence, better performance. Killing feels that dominant-parent ventures are managed much like wholly owned subsidiaries: all operating and strategic decisions are made by the dominant parent. In dominant-parent ventures, all functional managers will come from, or be selected by, the dominant parent. They and the joint-venture general manager will be evaluated on the same basis as plant managers for a wholly owned subsidiary. In addition, the joint venture will be integrated into the dominant parent's management system. Finally, the board of directors will play a largely ceremonial role.

The third type of venture in this typology (besides dominant and shared) was independent, in which the joint-venture management team was highly autonomous -- receiving little direction from either parent. Not surprising, these had the highest performance level of all, since to a certain extent they were independent because of their success.

A second study considering the link between management control and performance, was Schaan's (2). This study examined parent control in terms of mechanisms used to influence specific activities or decisions. This differed from Killing's work which focussed on the amount of overall control and "who" did the controlling. Schaan's in-depth study of 10 joint ventures in Mexico concluded that "parent companies were able to turn joint ventures around by creating a fit between their criteria of joint venture success, the activities or decisions they controlled and the mechanisms they used to exercise control."(3)

Rafii's (4) study in Iran explored the relationship between the degree of control exercised by the foreign partner and the extent and cost of technology transferred via the joint venture. Here, foreign managerial control was measured by the proportion of time the joint venture had had a foreign-partner-appointed general manager. The rationale behind the use of this measure was that managing directors in his sample had a "strong influence over decisions vital to the future of firms" (p. 2-15). Specific detail was not provided on which decisions were considered most vital and the relative influence of the local partner on these decisions. The author also acknowledged a clear trend toward the reduced use of expatriates. For these reasons, plus that he did not focus on joint-venture performance, his findings are not considered directly comparable to those used in this research.

A third study that considered the link between management control and performance was Janger's.(5) This American Conference Board report gathered data on the organization of international joint ventures from 168 joint ventures in both developed and developing countries. Using a management control typology roughly comparable to Killing's, the report concluded that the survey and interviews do not identify either dominant or shared ventures as being more successful than the others.

Tomlinson, in his examination of the joint-venture process in international business, also looked at the control-performance link. In this study of 71 joint ventures in two developing countries, India and Pakistan, he examined the argument that a greater level of foreign control should lead to greater profitability. Tomlinson found that "higher levels of return were obtained from joint venture investments by U.K. firms with a more relaxed attitude toward control. This casts some doubt upon the theory that control is necessary in order to improve the operational effectiveness of a joint venture."(6) Tomlinson feels the MNE should not insist on dominant control over the major managerial decisions in the joint venture. He suggests that the sharing of responsibility with local associates will lead to a greater contribution from them and in turn a greater return on investment.

The literature seems to indicate a different emphasis (in fact a weakening of the link) between dominant management control and good performance when study focus shifts from the developed countries to the less developed countries. This poses the question, why? The simplest way of reconciling the work of these different writers would be to demonstrate that there were significant differences between the populations of joint ventures in developed and developing countries. To determine if this were true, data were collected on characteristics (including control and performance) of joint ventures in developing countries and compared with observations from samples in developed countries. To increase the comparability of results, the measure of control used by Killing in developed countries was used in the LDC sample.

2. The Control Measure Used

The control questionnaire developed by Killing was administered to 11 of a possible 12 MNE respondents in the core ventures. For the other core venture, the responses of the MNE-supplied general manager were used in place of the MNE parent because there had been recent staff turnover at the MNE parent level. Although only MNE perspectives are reported, the likelihood of bias in the responses is limited; interviews with the local partners tended to be consistent with the particular dominant or shared control emphasis noted by the foreign partners. The major purpose of administering the questionnaire was to determine whether dominant management control was appropriate for joint ventures in LDCs.

A problem not rectified using Killing's questionnaire is that each decision was still given equal weighting. This is because executives were not asked to rank the importance of each decision. The deficiency of such a scheme is best illustrated by the fact that the generally conceded important decision of Capital Expenditures is given equal value to the generally conceded less-important decision of Production Scheduling.

A deficiency with Killing's questionnaire which was corrected was that the joint-venture executive (general manager) was not treated as an independent respondent, but as he actually is -- either supplied by the local parent or the foreign parent. As an example, a decision "Made by Joint Venture Executive Alone," when the executive was supplied to the venture by the foreign partner, was classed as a Dominant Foreign decision. Similarly, a decision "Made by Joint Venture Executive (who was supplied by the foreign partner) With Input from Foreign Parent" was also classed as a Dominant Foreign decision, not a shared decision.

The questionnaire had nine decisions to be scored. The respondents all rated items seven (Annual Budget-Cost Targets) and eight (Annual Budget-Sales Targets) identically. Since these decisions were not independent of each other, (i.e., there was multicollinearity) they were considered one decision. This left a total of eight decisions, each evaluated 12 times. To avoid sacrificing any detail by prematurely aggregating data, each decision was first examined in its relationship to performance independently of the others in this research.

3. Control and Performance

Table IV-2 details whether the eight control decisions were shared or dominated by one of the partners, and their relationship to performance. It shows: a) which decisions are normally shared by the partners - product design and those involving the Budget (sales/cost targets and capital expenditures); b) within the dominant category, which decisions are dominated by the foreign partners - the production process - and which by the local partner; and c) how each of the three categories relates to performance. In none of the decisions was there a positive correlation between Foreign Dominant control and satisfactory performance. In fact, 71% of the time (25 of 35) unsatisfactory performance was associated with a decision where there was dominant foreign control. In only 25% of cases (15 of 61), however, was unsatisfactory performance associated with a decision in which the local partner had some involvement.

The data from this new sample supports the view that foreign partners should not take a position of dominant control in the decisions of the

TABLE IV-2

Summary of Control Findings by Decision for 12 Core Ventures

Decision	Number of Times Decisions Dominated by Foreign Partner (Ventures which were unsatisfactory performers)	Number of Times Decisions Dominated by Local Partner (Unsatisfactory performers)	Number of Times Decision Shared (Unsatisfactory Performers)	Number of Responses for Each Decision (Unsatisfactory Performers)
Production Scheduling	6(4)	6(1)	0	12(5)
Production Process	7(5)	3(0)	2(0)	12(5)
Product Pricing	5(3)	5(1)	2(1)	12(5)
Replacing a Functional Manager	5(4)	2(0)	5(1)	12(5)
Quality Standards	5(4)	2(0)	5(1)	12(5)
Product Design	4(3)	1(1)	7(1)	12(5)
Sales/Cost Targets	3(2)	2(0)	7(3)	12(5)
Capital Expenditures	0	0	12(5)	12(5
Totals	35(25)	21(3)	40(12)	N/A

joint venture. Rather, it suggests that decision-making should involve the local partner.

There was a significant relationship between unsatisfactory performance with overall foreign dominant control, and satisfactory performance with shared or local dominant control (See Table IV-3). This compares favourably with the results of the developed country sample noted earlier.

TABLE IV-3

Performance - Aggregate Control in Core Ventures

	Local Dominance	Shared Control	Foreign Dominance
Unsatisfactory	0	1	4
Satisfactory	2	4	1

Chi-square - 5.417 with 2 degrees of freedom. Significance = .067.

To test the sensitivity of the observations in the LDC-based core ventures, the dominant-local and shared observations were aggregated. The resultant Fisher's Exact Test significance score was .045, similar to that previously found, and further reinforcing the benefit of involving the local partner in decision-making.

To sharpen the contrast further, the five foreign dominant control ventures were contrasted with the five shared control ventures in terms of performance. The Fisher's Exact Test significance level declined only slightly to .103 (partially due to a smaller sample) which still suggests strong respective correlations with performance. A third variation was examining the impact of reclassifying two of the shared ventures (one successful, one unsuccessful) as dominant-local, since they were close. This resultant correlation was also nearly identical to the original observation. (Chi-square was 5.62 with 2 degrees of freedom, significant at a .060 level.)

Local partner involvement could potentially take two forms; a shared joint venture or a venture dominated by the local partner. There were insufficient numbers of dominant-local ventures to contrast directly with dominant-foreign ventures.

In a comparison of shared versus dominant (where local dominant and foreign dominant were combined) ventures, there was not a significant correlation with performance (see Table IV-4).

TABLE IV-4

Performance - Aggregate Dominant versus Shared Control

	Dominant (Local or Foreign) Control	Shared Control
Unsatisfactory	4	1
Satisfactory	3	4

Fisher's Exact Test = .247 significance

This differs from control findings in developed countries, which emphasized the importance to performance of one of the partner's dominating.

Each of the eight decisions from the control questionnaire was also correlated with performance. There was not a statistically significant

(.10 or below) correlation between performance and four of the eight decisions: Product Pricing, Product Design, Annual Budget Sales/Cost Targets, or Annual Budget Capital Expenditures. The only interesting observation among this group of variables was that in all twelve ventures, the decision generally considered important, regarding Capital Expenditures, was shared.

Statistically-significant correlations were obtained between performance and the other four decisions: Production Scheduling, Production Process, Quality Standards, and Functional Managers.

Production Scheduling

While the Capital Expenditures decision was always a shared decision, the decision regarding Production Scheduling was never shared. More importantly, there was a strong correlation between unsatisfactory performance with foreign dominance of the decision and satisfactory performance with local dominance of the decision (see Table IV-5). This observation is consistent with other findings that stressed the importance of finding a partner with knowledge of the local economy, politics, and market. The implication here is that the local partner is better able to decide the production schedule best satisfying the needs of the market.

TABLE IV-5

Performance - Control of Production Scheduling

	Foreign Dominance	Shared Control	Local Dominance
Unsatisfactory	5	0	0
Satisfactory	1	0	6

Fisher's Exact Text = .007 significance.

Production Process

There was a strong correlation between unsatisfactory performance with foreign partner control over the production process, and satisfactory performance with shared or local control over the decision (see Table IV-6). Most of the ventures in the core sample had a low intensity of technology (using Dunning's (7) system), which suggests a less complicated production process. We can speculate that the local partners interpreted the MNEs unwillingness to share these joint-production process skills as the MNE's being uncommitted to the joint venture.

TABLE IV-6

Performance - Control of Production Process

	Foreign Dominance	Shared Control	Local Dominance
Unsatisfactory	5	0	0
Satisfactory	2	2	3

Chi-square = 6.12 with 2 degrees of freedom. Significance = .047

Quality Standards

There was a correlation between unsatisfactory performance with foreign-partner control over the quality standards, and satisfactory performance with shared or local control over the decision (see Table IV-7). This observation is similar to the production scheduling decision. Local partner input is indicated because the local partner will have the best knowledge of the level of quality required to satisfy local norms. For example, performance in one joint venture improved dramatically after the local partner was finally able to convince the foreign partner to use local raw material sources. The foreign partner had been reluctant to use locally produced inputs because the resultant quality of the finished product would be lower than the standard the MNE was accustomed to manufacturing. The MNE partner was slow to recognize that even with a reduction in quality, the quality standard was still as high or higher than other products sold locally. Also, because lower quality control is demanded in products of lesser technology(8), (such as those produced by the firms in the core ventures), there is not the same necessity for the foreign partner to insist upon control.

TABLE IV-7

Performance - Control over Quality Standards

	Foreign Dominance	Shared Control	Local Dominance
Unsatisfactory	4	1	0
Satisfactory	1	4	2

Chi-square = 5.417 with 2 degrees of freedom, Significance - .067.

Functional Managers

There was a correlation between unsatisfactory performance with foreign-partner control over decisions regarding functional managers, and satisfactory performance with shared or local control over the decision. (see Table IV-8). This observation (as will be seen) is the same as that which was obtained from the Partner Need questionnaire.

TABLE IV-8

Performance - Control Regarding Functional Manager Decisions

	Foreign Dominance	Shared Control	Local Dominance
Unsatisfactory	4	1	0
Satisfactory	1	4	2

Chi-square = 5.417 with 2 degrees of freedom, Significance = .067.

4. Control and Other Joint Venture Characteristics in Developed and Developing Countries

In samples of joint ventures in developed and developing countries, major differences were observed in the control-performance relationship. While dominant management control had been recommended by other researchers, shared control was advocated here. These differences do not suggest that the previously noted emphasis on dominant control influencing performance should be doubted. Rather, it suggests only that there are limits to how far this view can be generalized, and that it is inappropriate in LDCs. Evidence of differences in the characteristics of joint ventures in developed and developing countries can also be found in terms of stability, performance, frequency of association with government partners, autonomy, ownership, reasons for establishing the venture, and the ownership control relationship. A summary of the differences is in Table IV-9, while detailed data on the derivation of these differences can be found in Appendix 4.

TABLE IV-9

Summary of Differences of Joint Venture Characteristics

	Developed Country	Developing Country
Control-Performance Relationship	Dominant Control Recommended	Shared Control Recommended
Instability Rate	30%	45%
MNE Managerial Assessment of Dissatisfaction with Performance	37%	61%
Autonomously Managed Ventures	17%	0%
Most Common Level of Ownership for MNE	Equal	Minority
Major Reason for Creating Venture	Skill Required (64%)	Government Suasion (57%)
Ownership-Control Relationship	Direct (Dominant Control with majority ownership. Shared control with equal ownership)	Difficult to discern because most MNEs have a minority ownership position
Frequency of Association with Government Partners	Low	Moderate

Is shared control then the key requirement for joint venture success in LDCs? Other research would suggest that shared control by itself cannot guarantee joint venture success. In Schaan's sample of 10 joint ventures in a single LDC (Mexico), all of the ventures had shared control, yet three were unsuccessful. Thus, while the use of shared managerial control in joint ventures in LDCs is supported, shared control by itself does not seem sufficient in explaining joint venture success.

As well, the reasons for a strong correlation between performance and shared versus foreign dominant control in joint ventures in LDCs remains unexplained at this point. In an attempt to clarify this, research attention focussed on earlier stages in the joint-venture process: reasons for forming the venture and partner selection. Analysis of the pilot survey findings provided the first insights into the underlying reasons why some joint ventures perform poorly and others well.

CHAPTER FOUR NOTES

(1) J. Peter Killing, "How to Make A Global Joint Venture Work," Harvard Business Review (May-June, 1982), p. 121.

(2) Jean-Louis Schaan, "Parent Control and Joint Venture Success: The Case of Mexico," Unpublished Doctoral Dissertation, University of Western Ontario, 1983.

(3) Ibid., p. ii-iii.

(4) Farshad Rafii, "Joint Ventures and Transfer of Technology to Iran: The Impact of Foreign Control," Unpublished Doctoral Dissertation, Harvard University, 1978.

(5) Janger, op. cit.

(6) James W.C. Tomlinson, The Joint Venture Process in International Business (Cambridge: M.I.T. Press, 1970), p. 147.

(7) John H. Dunning, International Production and the Multinational Enterprise (London: George Allen & Unwin, 1981), p. 83.

(8) Raymond Vernon, Storm Over the Multinationals: The Real Issues (Cambridge: Harvard University Press, 1977), p. 36.

V. PILOT SURVEY OBSERVATIONS AND ANALYSIS

The preliminary observations from the pilot-survey data dealt with each stage of the joint-venture process: reasons for forming the venture, partner selection, and management of the venture. These initial observations were coupled with an analysis of 62 problems the managers interviewed associated with the management of joint ventures in LDCs.

From this basis, an examination of variables other researchers had considered relevant, and a comparison of the problems noted in the high- and low-performing ventures, led to the focus on the key factors: need and commitment.

1. Preliminary Observations on Managerial Problems

Many joint ventures seem to have been poorly conceived and should not have been formed. For example, several ventures were formed as the result of an inaccurate perception of government pressure to do so. Also, in a case in Africa, an MNE agreed to form a joint venture in a peripheral business to which they were not committed. As an alternative, management contracts or joint ventures of predetermined longevity could have been used.

Several writers pointed out that the major skill needed by the MNE of his partner was general knowledge of the local economy, politics, and customs. A number of executives interviewed noted the importance of gaining this knowledge, particularly in LDCs. They felt that local knowledge was especially important because of the greater cultural differences that exist between LDCs and developed countries (DCs) than exist between DCs. With reference to the importance of local knowledge, one manager noted that,

> from the multinational's perspective, joint ventures are much like any other subsidiary except that the [management] hassles take place at a different stage in the process. The normal problems for the MNE occur between the subsidiary and the market place. With a joint venture, the problems now occur with the partner. The local partner in turn handles the market end because this is the reason he was brought into the venture.

In many cases, partners were selected on the basis of their short-term contribution. While this is not necessarily a problem, it does create difficulties when it is unintentional. Managers associated a number of costs, in terms of profits and staffing, with such a situation. Multinationals in several cases in the smaller markets in South America were, for example, impatient to find a partner once they had decided the market was attractive. Partners were chosen solely on the basis that they provided faster entry into the local market. Several years after the MNE partner had operated in this same local market, he suddenly realized that any need he once had for the partner had disappeared. This particular example is illustrative of the high absolute number of joint ventures that were formed on the basis of short-term need and commitment.

In terms of the on-going management of the joint venture, a number of ventures suffered from poor partner relations. This may be partially due to the reasons for forming the venture and the partner selection, but it does not tell the whole story. A number of management agreements seemed to have been poorly implemented. Disagreement over the required levels of management control arose. For example, in several cases local partners could never understand why the multinational required so many monthly reports. Hence, reports were either not completed or completed late.

In addition to these initial observations, during the pilot survey executives were asked whether they had any problems with their joint ventures and, if so, what they were. The executives responded with 62 problems associated with the management of joint ventures in LDCs (See Table V-1). Nearly half - 29 - of these problems were unrelated to being a joint venture in a less-developed country. Some, for example, were associated with general economic conditions and the stage of national development (i.e., lack of infrastructure, lack of depth in local management in the country, or delays in obtaining replacement parts because of national balance-of-payments difficulties). Other problems were associated with the level of government regulation (i.e., being forced to set up a local manufacturing facility in order to continue operating in the host country).

The remaining 33 problems - all related to the location of a joint venture in an LDC - were split up into those which the MNE partner attributed to itself (4 in total) and those which it attributed to the joint-venture-management problems of the local partner (29 in total). The major problems noted were:

i) a declining usefulness of the partner

ii) partners having insufficient knowledge of the industry to manage the joint venture effectively

iii) partners using the joint venture as a training ground, and

iv) government partners who either back out of the joint venture agreement or force the MNE to reduce its equity position.

A number of the problems cited by executives were related to the lack of management skills applied to the joint venture operation, an issue of the quality of management control.

TABLE V-1

Managerial Problems of Joint Ventures in LDCs

	Problems Unrelated to being a JV in an LDC	Problems Attributed to MNE	Problems Attributed to Partner
1. Declining usefulness of partner over time	-	-	7
2. Partners having insufficient knowledge of the industry to manage the JV effectively	-	-	5
3. Partners using JV as a training ground	-	-	2
4. Government partner forcing MNE to reduce its equity position	-	-	2
5. Government partner backing out of JV agreement	-	-	2
6. Partner setting up as a competitor	-	-	1
7. Disagreement with partner over pricing policy	-	-	1
8. Dishonest JV General Manager (poor system of appointing GM)	-	1	-
9. The loyalty of the JV GM resting with local partner and not MNE	-	1	-
10. Understanding the local business customs	-	1	-
11. Partner who places too much emphasis on short term profits; who is willing to cut corners on quality and personnel	-	-	2
12 Partner who wanted to expand before MNE felt it was appropriate to do so	-	-	1
13. Disagreement with partner over the importance of buying good, quality equipment early	-	-	1
14. Partner not making any effort to assimilate self into local culture	-	-	1

(Cont'd)

TABLE V-1 (continued)

Managerial Problems of Joint Ventures in LDCs

	Problems Unrelated to being a JV in an LDC	Problems Attributed to MNE	Problems Attributed to Partner
15. Partners who could aid the assimilation process but remain silent	-	-	1
16. Lack of local management depth in country	2	-	-
17. Change in ownership of local partner share of the JV	-	-	1
18. Joint venture agreement that did not provide for an exit from the JV - lack of detail in JV agreemment	-	1	-
19. No cash available from JV partner	-	-	2
20. Local country trying to grow too quickly - no infrastructure present	5	-	-
21. Trying to function with old equipment	3	-	-
22. The use of bribery within local culture	2	-	-
23. Undercapitalization	1	-	-
24. Market size unable to support existing number of competitors	1	-	-
25. Union militancy	1	-	-
26. Replacement parts could not enter country due to balance of payments problems	1	-	-
27. Currency fluctuations (including devaluations)	2	-	-
28. Local content regulations means high training regulations	1	-	-
29. MNE forced to set up a local manufacturing facility (in a JV format) in order to stay in the market	10	-	-
TOTALS	29	4	29

2. Need and Commitment Hypothesis

During the pilot-survey interviews, managers were specifically asked about a number of variables that different authors had considered important to joint-venture success. The intention here was to try to develop a tentative hypothesis on joint venture performance in LDCs. The results of these interviews with headquarter executives were contradictory. No clear pattern was observed between success and: level of technology, ownership level, staffing with expatriates versus with locals, or type of management control.

When variables other authors had considered important to joint-venture success did not prove clearly significant, attention shifted to a comparison of those joint ventures which had failed outright with those that were most successful. The 10 joint ventures no longer existing were contrasted with the 10 with fairly clear prospects of success. The problems cited by the companies in each of these two groups were contrasted, revealing a key insight. Nearly all of the problems associated with managing joint ventures in LDCs could be viewed in terms of whether there existed a mutual long-term need between the partners and whether partners were committed to the joint-venture structure in an international context.

The impact of some preliminary measures of need and commitment on performance was analyzed. Need was measured through an assessment of manager's evaluations of the partner's temporal contribution of such items as local knowledge of markets, speed of entry, etc. Commitment, which denoted a willingness to take actions sufficient to make the venture profitable (especially when problems arose), was measured by asking the managers about their corporate attitude toward taking a minority-equity position in a joint venture in a developing country.

Using a chi square analysis, strong relationships (significant at .05 or better) were identified between need and stability, need and predicted performance, and need and commitment. While the initial relationships between commitment and stability, and commitment and predicted performance, were not as strong as those involving need, they were promising enough to warrant further investigation. Overall, the findings at this stage provided much of the impetus for the focus on the refined measures of need and commitment discussed in the chapter following.

Need

When the 34 joint ventures were grouped along stable-unstable and short-term and long-term partner need lines, the results were clear (see Table V-2). Those joint ventures in which there was a long-term need between the partners seemed to be much more stable than those in which no such situation existed. This was supported by a corrected chi square of 5.34 with 1 degree of freedom, significant at the .02 level.

TABLE V-2

Need-Stability Relationship

	Short-Term Need	Long-Term Need
Stable	8	12
Unstable	12	2

In terms of performance, the managers were asked to predict either success or difficulty/failure for the 24 still existing joint ventures. These predictions were then compared along short-term and long-term need lines (see Table V-3). Again, those joint ventures in which there was a long-term need between the partners were predicted to perform much better than those with a shorter-term emphasis. This was supported by a corrected chi square of 4.039 with 1 degree of freedom, significant at .044.

TABLE V-3

Need-Predicted Performance Relationship

	Short-Term Need	Long-Term Need
Success	2	7
Difficulty/Failure	11	4

Commitment

The correlations between commitment and both stability and predicted performance were weaker (.29 and .24 significance respectively) than those relating to partner need. Even though the commitment significance-levels were by themselves weak, commitment as a variable was maintained: the direction of relationship was the same as with need; and need plus commitment had a more significant correlation with predicted performance than need alone. However, before the interactive effects of need and commitment are examined, several observations regarding commitment are presented.

Although MNEs are not generally committed to being minority partners in LDC ventures, they were the minority partners in nearly 80% of cases in this research. This suggests the potential importance of commitment in the operation of the joint venture.

MNEs were very seldom committed to the joint-venture structure when they had local government rather than local private partners (see Table V-4). Here the corrected chi square (2.829 with 1 degree of freedom) was significant at the .0925 level.

TABLE V-4

Commitment-Partner Type Relationship

	Strong Commitment	Weak Commitment
Local Government	1	9
Local Private	12	11

One company's entry into Tanzania (disguised countries used) can illustrate the importance of partner commitment to the joint venture. Having determined how attractive the local market was, a Canadian firm decided that they needed to team up with a Tanzanian firm if they wished to break in. There were initially a great number of difficulties. They were joining with a firm using primitive technology that was 80% controlled by Koreans and 20% by Tanzanians. The Koreans were not committed to the venture-using it only as a training ground and making no effort to adapt to the local culture or upgrade the technology. In addition, the Tanzanians were playing a passive role. Given the Canadian firm's commitment to the venture, they initiated an ultimately successful plan whereby quality was improved, Korean managers were replaced, some basic managerial controls were applied, and the Tanzanians became more involved. Yet it took nearly ten years of very difficult work to bring the JV to its present form. As much as the Canadian firm felt they needed the local partners, it seems doubtful that the venture would have succeeded without their long-term commitment as well.

Need and Commitment

The relationship between need and commitment is noted in Table V-5. Here the corrected chi square (11.050 with 1 degree of freedom) was significant at the .0009 level, suggesting a strong correlation between long-term partner need and strong commitment, and short-term partner need with weak commitment.

TABLE V-5

The Need-Commitment Relationship

	Strong Commitment	Weak Commitment
Long-Term Need	10	4
Short-Term Need	2	18

Table V-6 illustrates that those joint ventures in which there were both long-term partner need and strong commitment to the joint venture structure were much more likely to be stable than those cases with short-term need and weak commitment. This is supported by a chi square of 5.742 with 2 degrees of freedom, significant at .056.

TABLE V-6

Need/Commitment and Stability Relationship

	Strong Commitment/ Long-Term Need	Mix	Weak Commitment/ Short-Term Need
Stable (20)	9	3	8
Unstable (14)	1	3	10

Last, there is evidence to show that strong commitment and long-term need are associated with predictions of success, and that weak commitment and short-term need are associated with a prediction of difficulty/failure (see Table V-7). The chi square here (7.217 with 2 degrees of freedom) was significant at a .027 level.

TABLE V-7

Need/Commitment and Predicted Performance Relationship

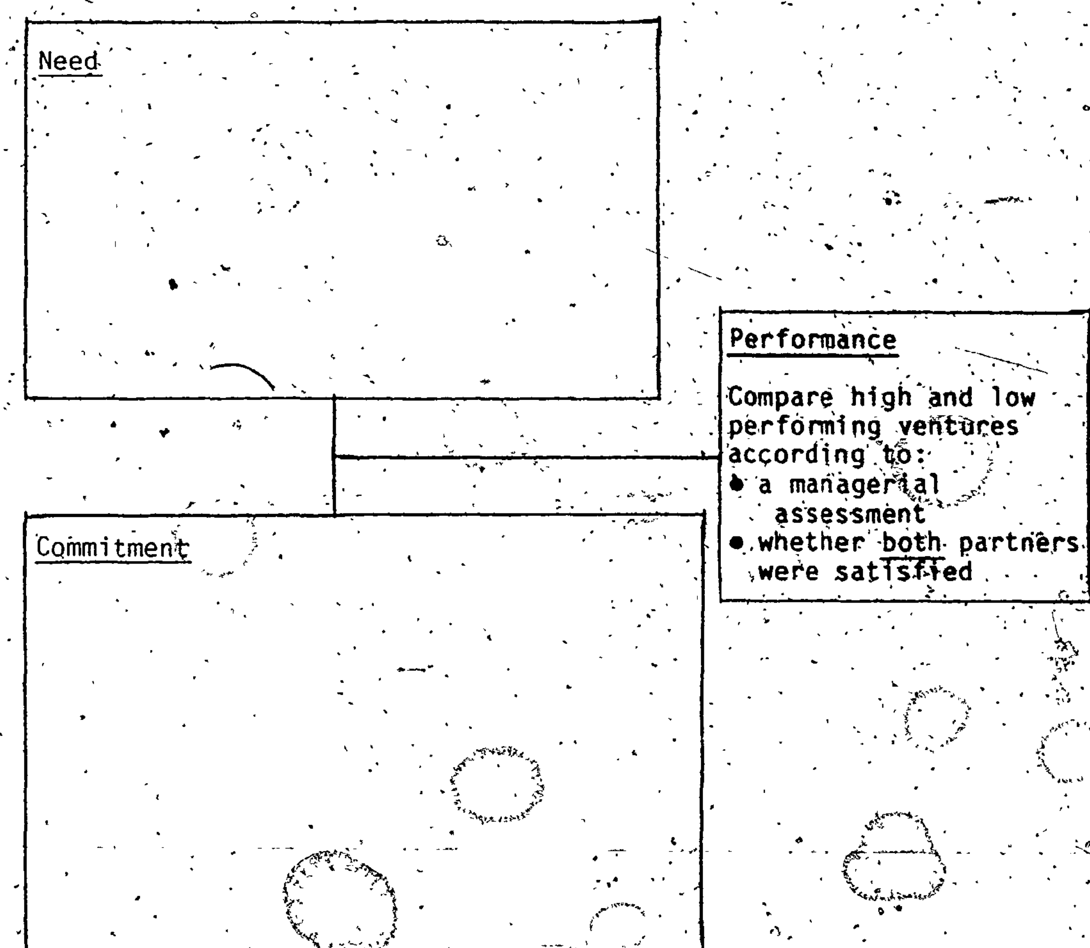
	Strong Commitment/ Long-Term Need	Mix	Weak Commitment/ Short-Term Need
Success	6	1	2
Difficulty/Failure	2	5	8

In those cases where there were long-term partner need and strong commitment to the joint-venture structure, the venture was more than twice as likely to be successful than to have difficulty or fail. Similarly, when there were both short-term partner need and weak commitment to the joint venture structure, the venture was much more likely to have difficulty or fail than it was likely to succeed.

With clear preliminary indications from the pilot survey that need and commitment were important for joint-venture success, attention focussed on these variables. Both a review of the literature and development of redefined measures were required to complete Figure V-1. This is the subject of the chapter following.

FIGURE V-1

General Research Model of Joint Venture Performance in LDCs



VI. PARTNER NEED AND COMMITMENT: LITERATURE AND MEASURES

As noted earlier, the pilot survey observations indicated that what distinguished a successful from an unsuccessful joint venture was not primarily an issue of control as the literature had suggested. When the problems and characteristics of the highest- and lowest-performing ventures in the pilot survey were compared, a clear pattern with respect to joint-venture performance resulted. Most problems could be viewed in terms of whether there existed mutual long-term need between the partners and commitment of the partners to the use of joint ventures. This chapter reviews the existing literature on partner need and commitment and outlines the measures used to assess them in the core ventures.

1. Literature on Partner Need in Joint Ventures

A review of the literature on joint-venture performance shows that many writers consider mutual long-term need between partners an important issue in assessing a venture's potential. While partner need has seldom received explicit attention, nearly all researchers into joint ventures have included reference to it in their analyses. The most common instances are discussions regarding the long-term need for a partner or the need for one potential partner as opposed to another. This theme can be traced from the early work of Friedmann and Beguin,(1) which stressed the difficulty of choosing a partner when the political, economic, and social environment was rapidly changing. Franko,(2) Robock and Simmonds,(3) and Killing (4) all observed a similar pattern in joint ventures. They noticed that joint ventures were formed as a result of uncertainty concerning a new market; apparent learning about the market followed; then, need for a partner waned. A Canadian government publication on the establishing of ventures in Brazil stressed the value of finding a partner with "the same short-term and long-term goals [so that the local partner] will continue to have a need" (5) for the foreign company.

Because any firm that does not need a partner will not form a joint venture, it is surprising to find only two pieces of research with detailed lists of partner needs. These two sources are Stopford and Wells (6) and Raveed and Renforth. (7) Stopford and Wells had developed the most complete list of partner needs available at the time, and they were the first researchers to have made an attempt to measure the magnitude of different partner needs. They started with a list of nine items, which their questionnaire respondents extended to eleven. Thus, the work of Stopford and Wells served as a starting point for the list of needs measured in this research and was expanded to make it more complete.

The explanation of need measurement will be explained in the section following. At this time, note that a more comprehensive list of potential partner needs was developed and then measured from several different perspectives. Because this list was derived from the literature, the list is discussed before need measurement is explained.

Typology of Need

There is a large number of potential partner needs, and these can be classified in various ways. In this research, partner needs were divided into five groups (items readily capitalized, human resource needs, market-access needs, government/political needs, and knowledge needs) of three items each (see Table VI-1). The three items making up each of the five groups are discussed in turn.

i) Items readily capitalized: Virtually all research (including this) includes "capital" itself on the list of partner needs. In fact, to Roulac (8) capital was one of only two reasons for which partners are needed (the other was expertise). The second reason included for needing a partner was to ensure a "raw material supply." A third item was technology. Many firms in developed countries look for local partners as a means of spreading the introduction of their technology to as many markets as possible.

ii) Human-resource needs: Stopford and Wells included general managers, marketing personnel, and experienced production, R&D, or technical personnel. However, in this research "general managers" represented one category, with all "functional managers" making up the second. The third human-resource need added here was access to a "low cost labour force." Local partners may be more readily able to provide such a labour force than the multinational could if operating a wholly-owned subsidiary.

iii) Market access needs: Stopford and Wells included three items here. Their first item -- better access to the foreign local market for goods produced outside of it -- was modified to include the possibility of the local partner needing a foreign partner to gain better access to foreign markets for goods produced locally. Local partners may want a foreign partner for access to export markets, as Janger (9) points out. Stopford and Wells' second item -- better local access than would have been possible with a wholly-owned subsidiary -- was modified to include better access through joint ventures to any markets, again reflecting the LDC partners' perspective. Part of this second item includes a partner need mentioned by Killing,(10) channels of distribution. The third, from Stopford and Wells -- speed of entry into the local market -- was modified to "speed of entry into either the local or foreign market:"

iv) Government/Political needs: These were the items that respondents added to Stopford and Wells' initial nine-point list. Both of the items -- to meet government requirements for local ownership and to gain political advantage -- were retained as separate measures in this research. As part of "need to meet government requirements", "need to meet government import substitution policy" (11) was included.

The second partner-need item included in this section was "to satisfy forecast government requirements for local ownership." Poynter's (12) research has highlighted the domestication or localization tendencies of many LDC governments. This is an important consideration, so the need to "forecast" changes was added as a separate category. Using joint ventures as a means of reducing the political risk of intervention represents a logical decision for many companies operating in strategic sectors of a local economy. Those ventures operating in strategic sectors are identified in the research.

The third partner-need item in this section was "local political advantages," which includes such things as better political access. Thus, the three items of government/political need differ in concerns for existing requirements, possible requirements, and potential advantages.

v) Knowledge needs: The only item from Stopford and Wells in this category -- general knowledge of the local economy, politics, and customs -- was retained in this research. Newbould helped clarify what general knowlege encompasses by describing it as "knowledge concerning operating conditions, labour laws, factory regulations, customers, and marketing methods."(13) The second item, "general knowledge of the foreign economy, politics, and customs," was included to reflect the perspective of LDC partners. The final item was "knowledge of current business practices," which represented the other side of the foreign partners' need for an inexpensive labour force. In this case primary beneficiaries are local nationals: they acquire knowledge of, and experience with, current business practices in exchange for labour.

The focus of the study by Raveed and Renforth was on how well state enterprise -- multinational-corporation joint ventures met both partners' needs. They surveyed multinational executives and local elites (neither of which was necessarily involved in joint ventures) in Costa Rica concerning attitudes toward a number of forms of foreign-equity

TABLE VI-1

Joint Venture Partner Needs

	Stopford & Wells	Other Researchers	This Research
Needs for Items Readily Capitalized	- Capital - Better Access to Local Raw Materials or Components	- Technology (Janger)	1. Capital 2. Raw Material 3. Technology or Equipment
Human Resource Needs	- General Managers - Marketing Personnel - Experienced Production Personnel, R&D, or other Technical Skills	- Cheap Labour (Various Authors)	4. General Managers 5. Functional Managers (Marketing, Production, Research, Financial, etc.) 6. Inexpensive Labour
Market Access Needs	- Better Access to the Foreign Local Market for Goods Produced Outside of it - Better Access to the Local Market for Goods Produced by the JV than would be Possible with a Wholly-Owned Subsidiary - Speed of Entry into Local Market	- Export Base (Janger) - Channels of Distribution (Killing)	7. Better Access to the Foreign Local Market for Goods Produced Outside of it plus Better Export Opportunities for Goods Produced Locally 8. Better Access (ie. via Distribution Channels) to any Markets than through Wholly-Owned Subsidiaries 9. Speed of Entry
Government/ Political Needs	- Meet Government Requirements for Local Ownership - Provide Political Advantages	- Reduce Political Risk (Poynter) - To overcome Local Government's Import Substitution Policy (Hills)	10. Meet Government Requirements for Local Ownership or Import Substitution 11. Political Advantages 12. Satisfy Forecast Government Requirements for Local Ownership/Avoid Political Intervention
Knowledge Needs	- General Knowledge of Local Economy, Politics & Customs (EPC)	- Knowledge of Administrative Procedures (Newbould)	13. General Knowledge of Local EPC 14. General Knowledge of the Foreign EPC 15. Knowledge of Current Business Practices

investment. In addition to favouring joint ventures with local private firms, over all other forms, MNE executives felt that the two most important of the foreign-firm objectives were to obtain "country-related knowledge and local management."(14) Joint-venture managers in the work of Stopford and Wells had similarly ranked these among the most important local-partner contributions.

2. Measuring Need

The emphasis in this research was on determining level, type, and change (if any) of partner need -- both within and between each parent company. Figure VI-1 illustrates the map of partner need used.

FIGURE VI-1

Measuring the Need for the Joint Venture Partner

Perspective

		Local Partner	MNE	JV General Manager
Time of	Time of Entry	X	0 X	X
	Current	X	X	X
Measure	Three Years Hence	X	X	X

X - Partner need as measured in this research
0 - Partner need as measured by Stopford and Wells

This research has extended the measurement of need in the following ways:

a) beyond a single point in time (entry),

b) beyond a single perspective (the multinationals'),

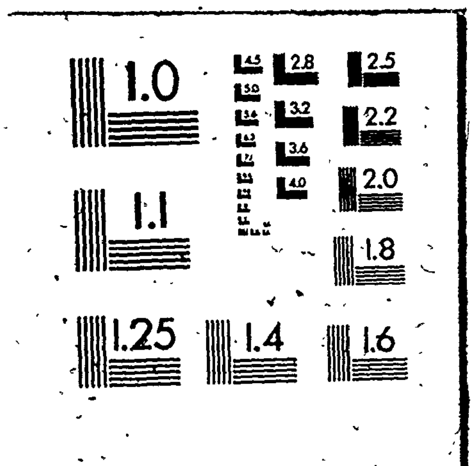
c) to joint ventures specific to developing countries, and

d) included a larger number of potential partner needs.

The first two questions regarding partner need (numbers 1 and 2 in questionnaire, see Appendix 1) were designed to obtain a general overview of each partner's need for the other. Subsequent measures were much more specific in nature. The first question asked each partner whether at the time of entry into the venture a specific partner was needed or not. It seemed reasonable to expect those joint ventures, in which partners were chosen for something only they could contribute, to be more successful than in those cases where nearly any partner would suffice. The second question asked each partner what the major contributions (in order of importance) of the other partners were at the time of entry into the venture, and at the present time.

The third question indicated increased specificity by asking each of the foreign partners how important the contribution of their venture partner was to 15 items (previously discussed) at the time of entry into the joint venture. Each item was evaluated along a five-point scale of importance -- important, somewhat important, average importance, somewhat unimportant, unimportant. This scale was quite similar to the seven-point scale used by Stopford and Wells. The fourth and fifth questions asked the same managers to evaluate the same list of partner contributions at the present time and three years hence. The intent of these questions was to focus on whether those joint ventures formed on the basis of needs of an obvious short-term nature (i.e., for speed of market entry) would be more likely to lead to poor joint-venture performance.

2



Because either partner may have the short-term emphasis, the next stage in measuring partner need was to ask the local partners the same questions (three, four, and five) about partner contributions. A possible explanation for joint-venture failure and one examined further, is that it is caused by differences in the magnitude of need of one partner for the other.

As Figure VI-1 indicated, the joint-venture general manager's (JVGMs) perspective was also of interest. The JVGMs were asked for their perceptions of the contribution of each partner at different times since incongruent responses (JVGM versus partner) also represented another possible explanation for joint-venture failure.

Finally, each partner was asked for additional detail on those items for which they had indicated the strongest need for their partner. Further detail was required given that detail might have significant implications for the interpretation attached to the response. One example, concerning a partner chosen for his general-management contribution, can illustrate. Here, the situation in which a partner was chosen because there was only one possible general manager available is contrasted with the situation in which there was a number of potential partners capable of supplying a general manager. Only by asking for further detail could the wide potential implications for the joint venture be discovered. (Appendix 1 contains the actual questions that each partner and joint-venture general manager were asked to complete.)

3. The Commitment Literature

In addition to focussing on partner need, the research examined several ways in which commitment was relevant to joint-venture performance.

The decision to also focus on commitment in this research was a result of comments made by multinational executives interviewed during the pilot survey. Commitment was the word which they, and other executives subsequently interviewed, used to describe the degree to which they felt bound to a particular behaviour regarding their joint venture. Executives continually used the word commitment in four general ways: to describe relative attitudes toward international business, toward the use of joint ventures, toward particular ventures, and toward particular partners.

On the evidence of early interviews, commitment seems to have both rational and emotional components. Certainly, a significant portion of what executives called commitment was a function of both their past experiences with joint ventures and an analysis of the pros and cons of using the joint-venture form of organization. A purely rational view, recognizing that both resources and information are limited, would lead to an analysis based on an understanding of the tradeoffs involved. However, the extent to which executives were willing to bind their companies to the use of joint ventures went beyond this purely rational analysis of the appropriateness of using a joint venture.

In many firms, the attitude of the company toward the use of joint ventures had attained the status of a corporate value -- "We favour the use of joint ventures/We oppose the use of joint ventures." In many companies it was simply corporate policy always to use, or never to use, joint ventures in developing countries. In one extreme case, an American multinational acquired by a Canadian firm was directed either to buy out, or to sell out to, all of its joint venture partners.

This also worked the other way: in several cases, ventures that no longer fit within the corporate portfolio were maintained. Among the reasons given: either it was the first venture established by the person who was now the company chairman, or the company chairman had, over the years, become personally friendly with the partner. Whether one agrees that sentiment or personal considerations should play any role in the joint-venture process, in reality they do. Given such a situation, joint-venture commitment is defined as the degree to which a firm is bound to a rationally and/or emotionally derived behaviour.

In contrast to the case of partner need, there is a negligible level of discussion in the international-business literature on the subject of commitment. The only work in the international-business joint venture literature found emphasizing the role of commitment was that of Tomlinson and Willié.(15) Commitment to a particular venture was one of the variables they used in modelling the joint-venture process in Latin America. Most of the literature on commitment - including that of Stevens, Beyer, and Trice;(16) Steers;(17) Angle and Perry;(18) Hrebeniak and Alutto;(19) Sheldon;(20) Buchanan;(21) Dubin, Champoux, and Porter;(22) Grusky;(23) and Lawrence and Dyer (24) - is in the area of organizational behaviour and is concerned with employee commitment to the organization. These writers focussed on such factors as the employees' position in the organization and tenure with the organization. One of the earliest researchers, Salancik, who provided the means by which commitment was ultimately measured in the research, noted, however, that "there are many more ways in which commitment is relevant to organizations than just staying on the job."(25)

One area of research that seemed to parallel this study was some work done on the implementation of management information systems (MISs). Ginzberg (26) found several issues relating to commitment relevant in the successful implementation of MISs. The first of these was the gaining of commitment to any course of action necessitated by the new system. Here the focus was on the willingness of these involved to make changes in behaviour, procedures, etc. The second Ginzberg issue was the gaining of commitment to the particular MIS implementation project. Here the focus was on taking those actions necessary to ensure the quality of the MIS project.

The behaviours of primary interest in this research are commitment to a course of action (i.e., to international business and the joint-venture structure) and commitment to a particular project (the specific venture and the specific partner). The use of commitment in relation to a course of action and to a particular project is similar in several ways to those issues Ginzberg found relevant. Commitment to international business is considered comparable, given the assumption that previously demonstrated willingness to do business internationally, in LDCs, and to use (especially minority) joint ventures, shows greater commitment to a course of action than does a wholly-owned subsidiary orientation. (The actual statements used to measure commitment are detailed in the next section.)

Commitment to the particular joint venture and the particular venture partner is similar to Ginzberg's usage in that both:

a) are specific in direction (i.e., to a particular joint venture or particular MIS implementation project);

b) require commitment from different groups of people with different orientations (i.e., in Ginzberg's MIS projects it was users and management; in the case of joint ventures it is the foreign and local partners); and

c) require commitment at all stages of the process.

In the case of MIS implementations, commitment issues were placed in the context of a seven-stage model of change. Ginzberg believed that those issues recurring during the sequential stages (scouting, entry, diagnosis, planning, action, evaluation, termination) of the Kolb-Frohman model might be critical issues requiring resolution in order to assure implementation success. In the joint-venture case, commitment to the venture is considered necessary at all three stages of the joint-venture process -- decision to form a joint venture, partner selection, and on-going management.

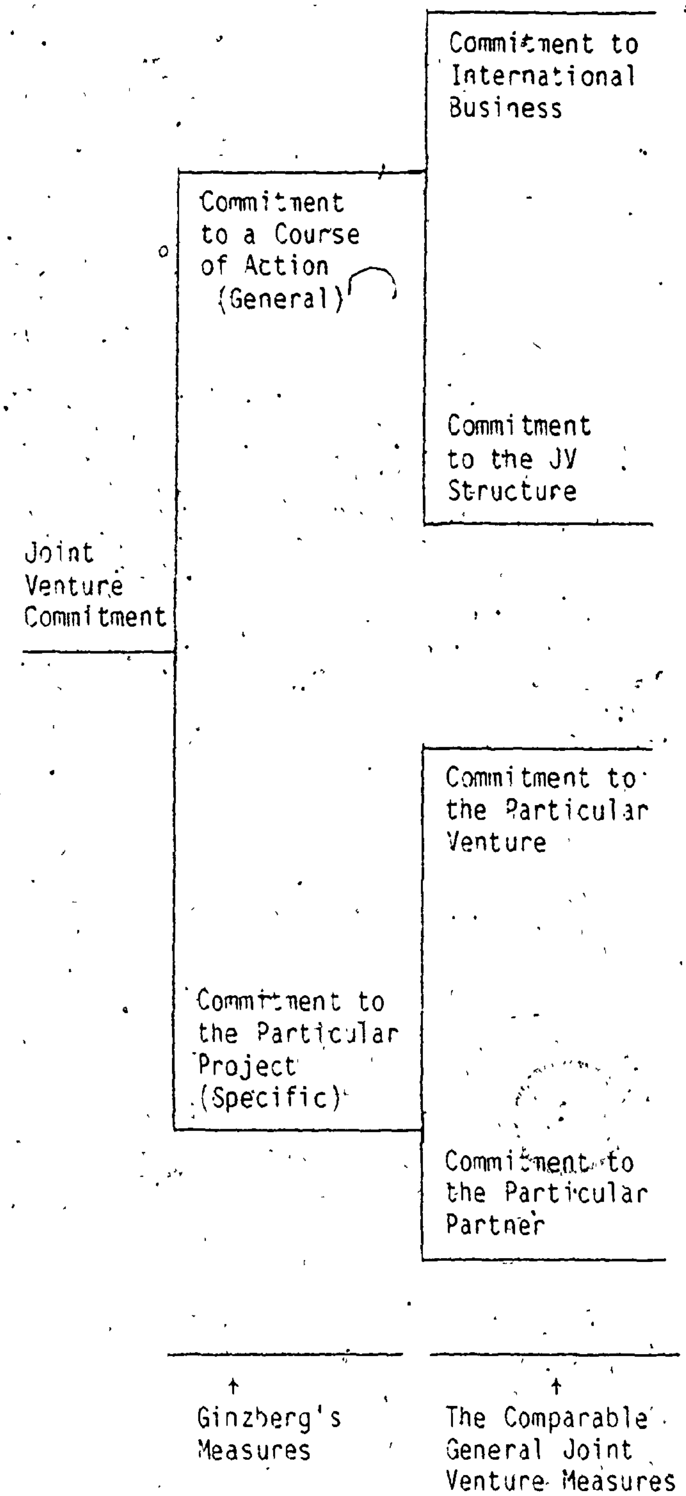
The general relationship between Ginzberg's use of commitment and commitment as used in this joint venture research is summarized in Figure IV-2. With this background, we can proceed with an explanation of the measurement of commitment.

4. The Commitment Measure

To measure commitment, managers from both parent companies in each of the 12 core ventures were asked to complete the appropriate portion of the questionnaire (see Appendix 1). The purpose was to assess how characteristic a total of 16 statements were of the foreign (MNE) parent-company's attitudes and activities vis-a-vis joint ventures and/or the particular joint venture. These statements were divided equally into four groups

FIGURE VI-2

Joint Venture Commitment: A Comparison with Ginzberg's Approach



designed to measure commitment to international business, to the use of joint ventures, to the particular venture, and to the particular venture partner. Ratings on each statement were over a five-point scale ranging from "characteristic" to "uncharacteristic" of the venture.

The 16 statements used to measure commitment were developed from the comments made by the multinational executives interviewed during the pilot survey. The questionnaire was administered to both partners. However, emphasis was placed on the MNE partner's perspective because, as the financially larger partner, the MNE had potentially a much wider range in the amount of resources it could commit to the venture. The stakes are higher for the financially smaller local partner so it was assumed that he is more likely to be committed already to the particular venture. Consequently, fewer of the statements were designed to examine the perspectives of both partners than in the partner-need questionnaire.

The statements were pretested and refined during the second phase of the data-collection process. The basic hypothesis governing all statements was that the greater the level of commitment, the better the performance of the joint venture.

The statements designed to measure commitment to international business were related to attitude toward foreign investment (generally and in LDCs), and to willingness to adapt products to the needs of the local market and willingness to increase the number of nationals employed. Note, however, that none of these statements necessarily measure commitment exclusively in one area.

The statements designed to measure commitment to the joint venture structure were concerned with whether the parent company: was willing to form a joint venture when there were no regulations requiring it to do so; was willing to take a minority-equity position; spent a long time weighing the costs and benefits of using joint venture over other organizational forms; and had contingency plans for providing its joint ventures with increased levels of assistance if necessary.

Statements designed to measure commitment to a particular venture asked whether joint-venture or parent-company concerns came first; whether parent-company management was willing to visit regularly and to offer assistance to the joint venture; whether parent-company management was willing to commit resources (people, time, and money) to the venture even when it should technically acquire these things on its own; and whether, when special skills were required by the joint venture, parent-company management first tried to find them in the parent organization. Regarding whether the concerns of the joint venture or those of either parent company came first, commitment was assumed to be greater when the joint-venture concerns came first. The implicit belief was that the general manager was best qualified to operate the joint venture, in the context of what both partners had agreed was an appropriate direction. Commitment to the particular venture as used in this research is similar to the measure by Tomlinson and Willie:

> "parent firms' commitment represented their readiness to make a continued, long-term commitment of resources such as financing, technical skills, managerial personnel and senior executives' time to the specific needs of a Mexican joint operation. Essentially, it indicated a partner's willingness to provide resources and capabilities."(27)

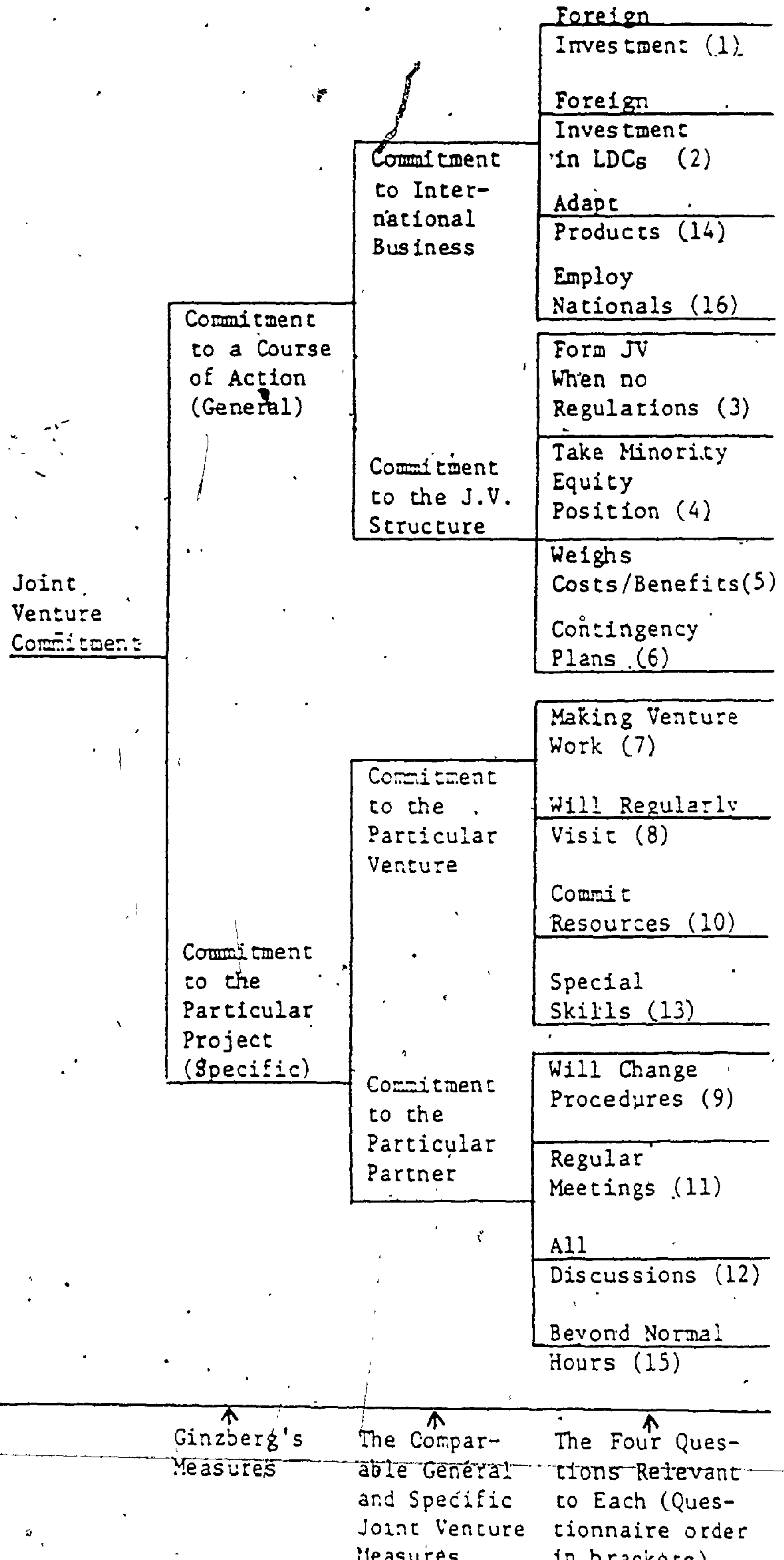
Commitment to a particular partner was assessed in terms of: willingness seriously to consider changing current working procedures and reporting requirements to accommodate the partner; ensuring through regular meetings that each partner knew what to expect from the joint venture; including the partner even in decisions not requiring joint discussion according to the management agreement; and the amount of time spent with the partner, beyond normal hours, working on venture business. The four types of commitment are summarized in Figure VI-3.

Measuring the Extent of Commitment

To reduce the possibility of executives either exaggerating or underestimating the degree to which any statement characterized their firm, supplementary questions relating to each of the 16 statements were developed to measure the extent of commitment. Managers were asked to respond verbally to these questions following completion of the questionnaire. Kiesler (28) and Salancik (29) provided the theoretical basis for the method used to determine the extent of commitment in the research: degree of commitment is considered to be a function of the extent to which one's behaviour is binding. This is derived from the definition of commitment -- a pledging or "binding of the individual to behavioural acts."(30) This emphasis on a behavioural measure is also consistent with that used by Ginzberg. Salancik felt that "four characteristics of behavioural acts make them binding, and hence determine the extent of commitment: explicitness, revocability, volition, and publicity."(31) Increasing one or more of explicitness (or deniability of the act); revocability (reversibility of the action); and

Figure VI-3

Joint Venture Commitment: Measurement



volition (the freedom or choice perceived by the person when performing the act) had first been hypothesized by Kiesler as useful in increasing the degree of commitment. Salancik adds a fourth characteristic, the publicity or "publicness" of the act, which links the action to a social context. Kiesler and Salancik also differ, as Kiesler uses the importance of the act for the subject and the number of acts performed by the subject as ways of increasing the degree of commitment.

The characteristics used in this research to determine the extent of commitment include both revocability and volition. (All of the characteristics used, plus those of Salancik and Kiesler, are summarized in Figure VI-4.) The third characteristic used here combined explicitness and publicity, because of the strong similarities between them. (Explicitness is concerned with the extent to which an action can be said to have taken place; publicity concerns the extent to which others know of the action.)

FIGURE VI-4

Characteristics of Behavioural Acts Which Make Them Binding and Determine the Extent of Commitment

Kiesler	Salancik	This Research
1) Revocability	1) Revocability	1) Revocability
2) Volition	2) Volition	2) Volition
3) Explicitness	3) Explicitness	3) Explicitness/ Publicity
4) Importance of Acts	4) Publicity	4) Effort
5) Number of Acts		

The fourth and final characteristic used to determine the extent of commitment was effort. Kiesler felt that everything pointed to the importance of effort as a determinant of commitment. However, because he had difficulty operationalizing it, he did not include it in his experiments. However, the present research measured effort in terms of amounts of money and time invested, as well as the number and level of people from each parent company involved in making the joint venture successful.

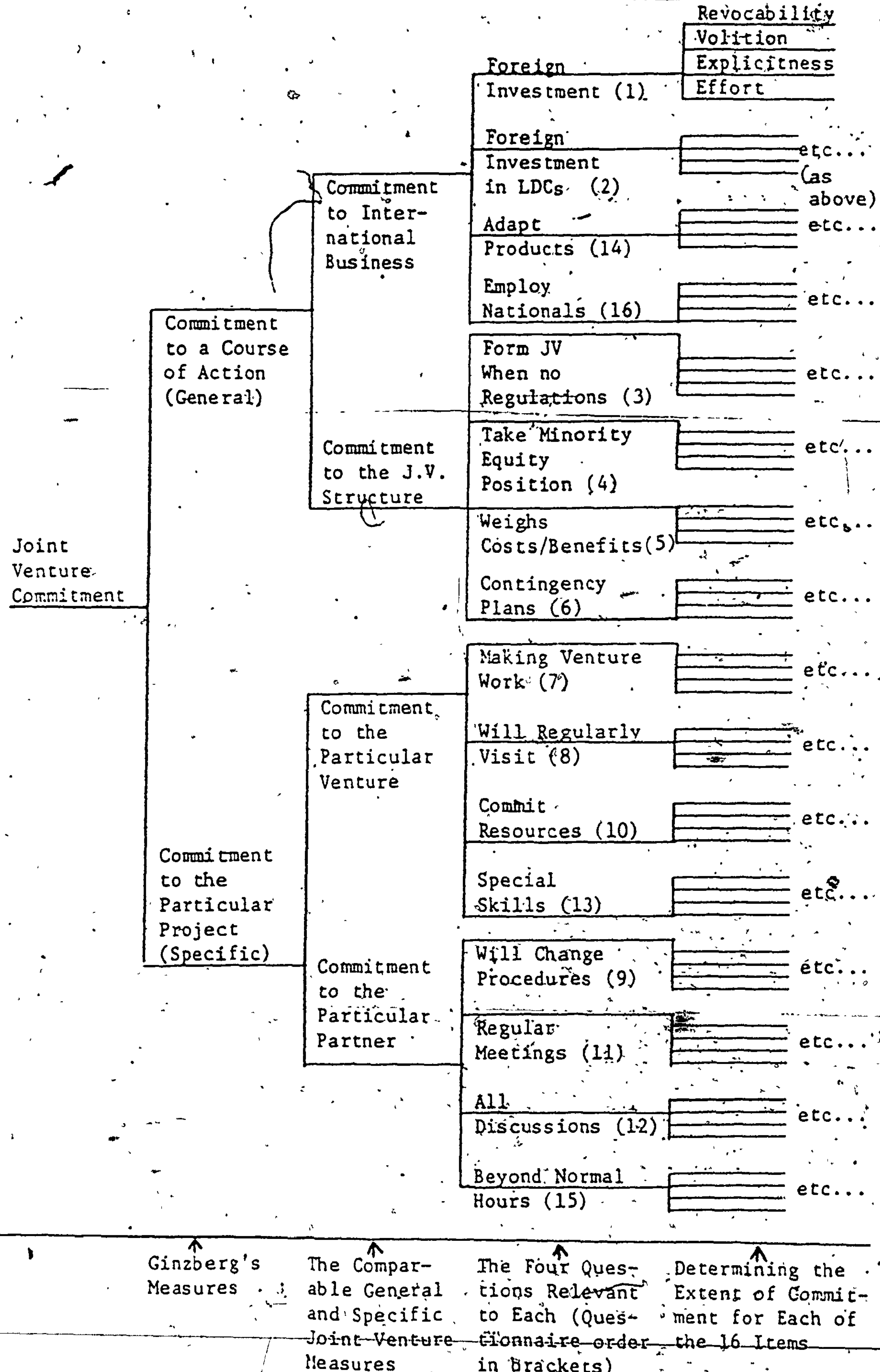
An example of how the extent of commitment was measured for a particular statement follows: executives were asked to assess how characteristic the statement -- "the parent company is quite willing to take a minority equity position in a joint venture" -- was of their organization. The executives responded using the five point scale noted in Appendix 1. However, their responses were not accepted at face value; each statement was assessed through different further interview questions in terms of revocability, volition, explicitness/publicity, and effort.

To assess revocability for this particular statement, the executives were asked how many minority, as opposed to majority, joint ventures the firm was involved in. Since the formation of any joint venture is not a quickly reversible activity, the assumption underlying the question was that greater commitment could be demonstrated through greater emphasis on minority joint ventures.

Volition was assessed by asking whether the company had voluntarily formed minority joint ventures. This question was designed to control for the fact that some LDC governments require MNEs to take a minority equity position. The hypothesis was that voluntarily taking a minority position

Figure VI-5

Determining the Extent of Joint Venture Commitment



demonstrated greater commitment than did being forced by the government to do so.

Explicitness/publicity was assessed by asking whether the company had a stated public position on minority ventures. A number of companies noted in their annual reports how they favoured or opposed minority ventures. Again the assumption was that greater commitment was demonstrated by publicly noting willingness to take a minority position.

Effort was assessed by asking whether the company had ever refrained from entering a market because of minority ownership regulations. The hypothesis was that if a firm was willing to make the effort to work within ownership regulations, commitment was certainly demonstrated. Figure VI-5 summarizes the complete measure of commitment used.

Appendix 3 details the statements that the managers were asked to assess - as well as the supplementary questions regarding the four characteristics of commitment relevant to each. Note that the statements to be assessed do not lend themselves equally to questions regarding all four characteristics. In addition, the detailed questions may be applicable to more than one characteristic.

5. Summary Model

Before examining the findings in the chapter following, it is useful to recapitulate the basic model guiding the research. First, a comprehensive measure of performance stressing the mutual response of both partners was chosen. This measure represented an improvement upon the vague (i.e., stability) and single perspective (i.e., MNE only) measures used in other research. The research then examined variables other research had considered important (i.e., ownership, staffing, etc.) and, where possible, replicated the work in a different locale (i.e., in LDCs). Third, the research examined the impact on performance of variables -- need and commitment -- that other researchers had considered important, but in most cases had not focussed on. Both need and commitment were examined in detail, using a large number of statements/characteristics that had been empirically derived.

Last, both need and commitment were examined (where possible) in each of the core ventures from a number of different perspectives. Need and commitment were examined individually in their relation to performance. However, there is believed to be an interactive relationship between need and commitment. Strong partner needs seemed to occur in the pilot survey with greater frequency when there was high, rather than low, commitment. Weak partner need also seemed tied to low commitment. Thus, although the research only has a limited discussion of this interactive effect (Chapter VII), such a relationship is believed to exist, and is an area for future study.

Figure VI-6 summarizes the research model with its focus on need and commitment. The next two chapters present analyses of partner need, and partner commitment, and discuss how need and commitment might be combined.

FIGURE VI-6

Summary Research Model of Joint Venture Performance in LDCs

Partner Need

- Examine the importance of:
  - Items Readily Capitalized
  - Human Resource Needs
  - Market Access Needs
  - Government/Political Needs
  - Knowledge Needs
- at three different points in time
- from three different perspectives

Performance

Compare high and low performing ventures according to:
- a managerial assessment
- whether both partners were satisfied

Commitment

- Assess how characteristic are statements regarding:
  - Commitment to International Business
  - Commitment to the Joint Venture Structure
  - Commitment to the Particular Venture
  - Commitment to the Particular Venture Partner
- Measure the extent of commitment for statements in terms of explicitness, revocability, volition and effort

CHAPTER SIX NOTES

(1) W.G. Friedmann and J.P. Beguin, Joint International Business Ventures in Developing Countries (New York: Columbia University Press, 1971), p. 410.

(2) Lawrence G. Franko, "The Art of Choosing an American Joint Venture Partner", The Multinational Company in Europe (London: Longman, 1972), p. 74.

(3) S.H. Robock and K. Simmonds, International Business and Multinational Enterprises, 2nd Edition (Homewood, Illinois: Irwin, 1973), p. 422.

(4) J. Peter Killing, Strategies for Joint Venture Success (New York: Praeger, 1983).

(5) Canadian Consulate-General in Brazil, Joint Business Ventures in Brazil: A Canadian Perspective (Ottawa: Department of Industry, Trade and Commerce, Government of Canada, 1981), pp. 5, 7.

(6) John M. Stopford and Louis T. Wells, Jr., Managing the Multinational Enterprise (New York: Basic Books, 1972), p. 102.

(7) S.R. Raveed and W. Renforth, "State Enterprise - Multinational Corporation Joint Ventures: How Well Do They Meet Both Partners' Needs?" Management International Review (1, 1983).

(8) Stephen E. Roulac, "Structuring the Joint Venture", Mergers and Acquisitions (Spring, 1980), p. 9.

(9) Allen R. Janger, Organization of International Joint Ventures (New York: The Conference Board, 1980), p. 3.

(10) Peter Killing, "Joint Venture Stability", U.W.O. School of Business Working Paper (London, Ont.: October, 1978), p. 3.

(11) Stephen M. Hills, "The Search for Joint Venture Partners", Academy of Management Proceedings (1978), p. 278.

(12) Thomas A. Poynter, "Government Intervention in Less Developed Countries: The Experience of Multinational Companies", Journal of International Business Studies (Spring/Summer, 1982).

(13) Gerald D. Newbould, Peter J. Buckley, and Jane C. Thurwell, Going International (Toronto: John Wiley and Sons, 1978), p. 73.

(14) Raveed and Renforth, op. cit., p. 51.

(15) J.W.C. Tomlinson and C.S.W. Willie, "Modelling the Joint Venture Process in Latin America: Mexico", Canadian Journal of Development Studies (3, 1, 1982).

(16) John M. Stevens, Janice M. Beyer and Harrision M. Trice, "Assessing Personal, Role, and Organizational Predictors of Managerial Commitment", Academy of Management Journal (Vol. 21, 1978), pp. 380-396.

(17) R.M. Steers, "Antecedents and Outcomes of Organizational Commitment", Administrative Science Quarterly (Vol. 22, 1977), pp. 46-56.

(18) Harold L. Angle and James L. Perry, "An Empirical Assessment of Organizational Commitment and Organizational Effectiveness", Administrative Science Quarterly (Vol. 26, 1981), pp. 1-13.

(19) Lawrence G. Hrebeniak and Joseph A. Alutto, "Personal and Role Related Factors in the Development of Organizational Commitment", Administrative Science Quarterly (Vol. 17, 1972), pp. 555-572.

(20) Mary E. Sheldon, "Investments and Involvements as Mechanisms Producing Commitment to the Organization", Administrative Science Quarterly (Vol. 16, 1971), pp. 142-150.

(21) Bruce Buchanan, "Building Organizational Commitment: The Socialization of Managers in Work Organizations", Administrative Science Quarterly (Vol. 19, 1974), pp. 533-546.

(22) Robert Dubin, Joseph E. Champoux and Lyman W. Porter, "Central Life Interests and Organizational Commitment of Blue Collar and Clerical Workers", Administrative Science Quarterly (Vol. 2, 1975), pp. 411-421.

(23) Oscar Grusky, "Career Mobility and Organizational Commitment", Administrative Science Quarterly (Vol. 10, 1966), pp. 488-50.

(24) Paul Lawrence and Davis Dyer, "Toward a Theory of Organizational and Industrial Adaptation", Working Paper - Graduate School of Business Administration - Harvard University (1981).

(25) Gerald R. Salancik, "Commitment and the Control of Organizational Behavior and Belief", New Directions in Organizational Behavior (Chicago: St. Clair Press, 1977), p. 3.

(26) Michael J. Ginzberg, "Key Recurrent Issues in the MIS Implementation Process", MIS Quarterly (June, 1981).

(27) Tomlinson and Willie, op. cit., p. 17.

(28) Charles A. Kiesler, The Psychology of Commitment (New York: Academic Press, 1971).

(29) Salancik, op. cit.

(30) Charles A. Kiesler and Joseph Sakumura, "A Test of a Model for Commitment", Journal of Personality and Social Psychology (Vol. 3, 1966), p. 349.

~~(31) Salancik, op. cit., p. 4.~~

VII. PARTNER NEED: ANALYSIS AND RELATIONSHIP TO PERFORMANCE

1. Introduction

Firms establishing joint ventures typically need partners for a variety of potential contributions. Based on a statistical analysis of the 18 questionnaire responses, supplemented by notes from the 46 interviews, a relatively clear picture emerged with respect to the contributions important to each partner, the contributions characteristically important in the high- and low-performing ventures, and those contributions of long-term, short-term, and little importance.

This analysis is based on data from the 12 core ventures. Of the eighteen questionnaires administered to parent-company executives and general managers involved in the core ventures, twelve were multinational executives, three were MNE-supplied general managers, and three were local partners, who also acted as general managers. Part of the questionnaire focussed on the interviewee's assessment of the importance of his partner's contribution to the venture of 16 different items. The relative importance of each item was measured at three times: entry, the present, and three years hence.

Needs of long-term importance was defined as those which were steadily important or increasingly important, at a minimum significance level of .05 or lower. Needs of short-term importance were those which were important, but decreasingly so. Needs were unimportant if they were steadily unimportant at a statistical significance level of .05 or lower. Significance levels up to .20 are reported, however, because of the small sample constraint, because values to this level are often included with the

Kolmogorov-Smirnov test, and because they are useful in suggesting direction. The original pilot survey focus on long-term rather than short-term partner need was extended to include a more absolute view of partner need since this more accurately reflects the situation in which one partner has no need for a particular partner contribution.

When the words important/unimportant are used, this is a reference to the five-point scale used in the questionnaire. In any case where a contribution is described as important or unimportant, this means at a statistical significance level of .05 or lower. As noted earlier, the statistical test used, with an example, is described in Appendix 2. Those items with significance levels of .20 or lower can be found in Table VII-2. There are six items important to the executives in the high-performing ventures at .20 significance or lower - four of which were significant at .05 or lower. The executives from the low-performing ventures felt that the partner made important contributions (both at .05 significance or lower) in only two areas.

The likelihood of a retrospective bias by respondents occurring was reduced, and consistency of response was increased, by administering the questionnaire and immediately comparing the results with those comments on the history of the venture made earlier in the interview. Since joint ventures, like any business, are never totally static, differences in partner need were expected to have occurred over the life of the venture. As such, MNE respondents who might otherwise have identically completed the three pages of the need questionnaire were asked to pause and, in some cases, reconsider their responses.

2. Partner Contributions

Each of the 16 partner contributions which formed this part of the questionnaire had been hypothesized as important by either a previous researcher or an executive interviewed during the pilot survey. Each contribution and its relationship to performance is examined in terms of:

a) degree of importance (i.e., important, neutral, unimportant);

b) changes in importance (i.e., increasing, decreasing, steady, and -- as only occurred with the unimportant partner contributions -- dual directional variation over time); and

c) the various perspectives (i.e., MNE executives, local partner/general manager's. There were also completed questionnaires from three MNE-supplied general managers, however their responses tended to be quite similar to those of their foreign parents. Therefore, only major differences are noted). Although these sample sizes are small, the Kolmogorov-Smirnov test was specifically chosen to accommodate this fact.

Each of the 16 partner contributions are examined. The results are summarized from the various perspectives in terms of degree of importance and changes in importance in Table VII-1. It bears mention again that most of the MNE executives in the ventures classed as low performers were satisfied with their venture's performance. It is unlikely that multinational executives downplayed their partner's contribution because they were dissatisfied with the venture's performance. Consequently, concerns regarding causality can be alleviated.

TABLE VII-1

Summary of Partner Contributions

	To MNEs in High Performing JVs	To MNEs in Low Performing JVs	To Local General Managers
(*) Needs of Long Term Importance	(****) 5) Local Business Knowledge 8) General Managers 10) Knowledge of Local Economy, Politics & Customs 13) Functional Managers	-	15) Better Export Opportunities
(**) Needs of Short Term Importance	2) Local Political Advantages 7) Avoid Political Intervention	7) Avoid Political Intervention 11) Meet Existing Government Ownership Requirements	4) Raw Material Supply 12) Technology or Equipment
(***) Unimportant Needs	3) Inexpensive Labour 4) Raw Material Supply 12) Technology or Equipment	3) Inexpensive Labour 4) Raw Material Supply 12) Technology or Equipment 13) Functional Managers 14) Access to Local Market 15) Better Export Opportunities	1) Speed of Entry 2) Local Political Advantages 3) Inexpensive Labour 10) Knowledge of Local Economy, Politics & Customs

Notes: (*) Steadily or Increasingly important over time (see Table VII-4)
(**) Decreasingly important over time (see Table VII-4)
(***) Unimportant (see Table VII-3)
(****) Numbers refer to questionnaire order.

(1) Faster Entry Into Local Market

The 12 multinational executives as a group did not feel that this was an important contribution of their local partner. There was no difference in the response rates from executives in the high- and low-performing ventures. As expected, in half the cases the relative importance of this partner contribution to the multinational declined over time. What was initially surprising was that this item retained any importance to MNEs over time. The explanation: some respondents felt that their partners continued to contribute faster entry for new products introduced to the local market after start-up. In several cases, respondents also interpreted "faster entry into market" to include "faster later entry through exports to other regional markets." Not surprisingly, the local shareholders deemed their foreign partner's contribution of faster entry into the local market as unimportant.

(2) Local Political Advantages

The executives in the high-performing ventures felt their local partner's contribution of local political advantages tended (.10 significance versus the required .05 level) to be important. However, the multinational executives felt that their partner's contribution did decline slightly with time. Whether this was due to an overall decline in the perceived importance of local political advantages, or, as one foreign executive noted, "because we have personally become more involved politically as our stake in the country has increased" is not clear. By "involved politically" the executive meant that he had developed closer social, and to a less extent working, ties to members of the ruling political party.

Having a politically well-connected partner was certainly no guarantee of joint-venture success. Several of the politically most powerful local partners were associated with two of the low-performing joint ventures. In other cases, local partners were clearly able to provide local political advantages. Again, not surprisingly, the local shareholders deemed their foreign partner's contribution of local political advantages unimportant.

(3) Inexpensive Labour

All respondents unanimously rated their partners' contribution of an inexpensive labour supply as unimportant (.01 significance level). There was total agreement that any potentially ~~beneficial~~ effect of lower wage rates was negated by the impact of overemployment, generally poorer employee training and working conditions, looser controls, a different work ethic, the use of less productive older machinery, and utility service interruptions.

(4) Raw Material Supply

The multinational executives from both the high- and low-performing ventures deemed unimportant their partners' contribution of raw material supply (.01 significance). Conversely, this was one of only three areas in which the local shareholders felt that foreign partners made an important contribution (.05 significance), although this was true only at the time of entry.

There was a slight but distinctive trend for the multinational executives to look increasingly to their local partners for a raw material contribution, and for the local partners to increasingly downplay the importance of the foreign partners' contribution. One executive suggested that this trend was a natural consequence of the national development over the years of the local country. As the country developed, it had become increasingly possible to acquire raw materials locally. It remained common practice in most joint ventures, however, for the foreign partners to supply raw materials.

(5) Knowledge of Current Business Practices

This item was originally designed to examine whether local partners perceived any contribution from their partners in knowledge of current, foreign business practices. There was no clear pattern of responses from the local shareholders for this item. The multinational executives in turn interpreted this question to mean "knowledge of current local business practices." Therefore, their responses were similar to the more inclusive item 10, "general knowledge of the local economy, politics, and customs." The multinational executives in the high-performing ventures rated their partners' contribution of "knowledge of current local business practices" as important (.05 significance) at both the present and for the future. The responses of the multinational executives from the low-performing ventures, however, were uniformly distributed.

For many of the items examined, the responses of the foreign-supplied general manager and the foreign parent were quite similar. For this particular item, however, the general managers always rated the local partners' contribution of "knowledge of current local business practices" lower than had their foreign parent companies. If we could assume that general managers normally spend more time with the local partners than the foreign parents do, then it would be possible to suggest that multinationals were overestimating their partners' potential contribution. However, this was not the case. Two of the three ventures in which foreign-supplied GMs were interviewed were low performers. Hence, a more reasonable interpretation is that the general managers might do well to solicit the local partners' contribution of "knowledge of current local business practices" more often. In only the high-performing venture was the general manager a national of the local country. Consequently, we would expect that there would legitimately be a lower need for the partners' contribution in this area.

(6) Better Access to Markets than a Wholly-Owned Subsidiary Would Provide

An observation made earlier was that the major reason for establishing a joint venture (rather than a wholly-owned subsidiary) in the developing countries was government suasion or regulations. Consequently, one might expect multinational executives to evaluate the potential contributions of "better access" as unimportant because it is not necessarily related to government influence. In fact, there was no clear pattern of response from the multinationals. Some firms perceived the existence of government suasion, while others in the same industry sector and country did not. Since the multinationals did not feel that this contribution was unimportant, this suggests that the decision to form a joint venture rather than a wholly-owned subsidiary is based on more than just the local government's desires.

(7) Satisfy Expected Government Requirements for Local Ownership/Avoid Political Intervention

At entry into the joint venture, executives from both the high- and low-performing ventures rated this item as an important contribution of their local partners. This contribution was particularly relevant to the executives from the low-performing ventures (.05 significance, versus .20 significance with high-performers); in fact, it was one of only two items in which they felt the local partner made an important contribution. What is significant about this is that it is the type of contribution in which virtually any partner will suffice. Unlike more specific partner contributions such as "supplying the general manager," the partner is chosen here primarily because, as a national of the country, he satisfies the government's local ownership requirements.

This result is consistent with the response received to the question, "Did you need a partner with specific qualifications?". This open-ended question had been asked of the respondents before they completed the partner-need questionnaire. In eight of the 12 ventures, there was agreement that a partner with specific qualifications was required. Significance lay in that three of the four responses which indicated that a specific partner was not required were from poorly-performing ventures.

The MNE expectations of ownership requirements and/or political intervention generally declined with time. Four of the five firms showing a decline were located in the main Caribbean country. This decline can be reasonably attributed to a change in local government. It was also interesting to observe how executives in the same industry and same country differed widely in their expectations of government ownership requirements or political intervention. In several cases, the inability of executives to assess accurately political risk caused multinationals to form a joint venture when they did not want to - but thought they had no choice.

(8) General Managers

Of all the items in the need questionnaire, this exhibited the greatest difference in response from the MNE executives of high-performing as contrasted with low-performing ventures. At all three points in time, the multinational executives from the high-performing ventures deemed important their partners' contribution of general managers (.05 significance). In contrast, multinational executives from the low-performing ventures considered their partners' contribution in this area unimportant (.05 significance).

Given the large expense of maintaining expatriate managers in foreign countries, many multinationals try to minimize the use of foreign managers. Several of the multinationals noted, however, that they liked to have at least one of their own people in the joint venture to "look after their interests." Yet, in all three ventures where the local partner acted as general manager, the venture was a high performer. As one executive noted, "a 'good' national knows how to move around the local government bureaucracy." Interestingly, the assessment of the importance of this item from executives in three of the five low-performing ventures did increase over time.

(9) Capital

With respect to either partner's contribution of capital, there was no clear pattern (a) between foreign and local partners, (b) between high and low performers, or (c) in change over time.

(10) General Knowledge of the Local Economy, Politics, and Customs

The multinational executives from the high-performing ventures rated this as the most important contribution (.05 significance) of their local partners at all three points in time. No such relationship was found in the responses from the low-performing ventures. Stopford and Wells had found this the most important partner contribution at the time of entry into the joint venture. However, they did not obtain a measure of the partners' contribution at the present time or three years hence. In addition, Stopford and Wells did not examine the relationship between each contribution and performance.

In many cases, this partner contribution of general knowledge took place on a regular basis. In other cases, the partner's contribution was more subtle. One multinational executive noted that, "we need our partner in the same way that a child playing in a park still likes to have his parent around if he gets into trouble. It's not that the child is dependent on the parent, but more a function of being reassured that he's there if needed."

The relative importance of the local partner's contribution of this general knowledge did exhibit a very slight decline with time in four of the 12 ventures. The implication here is that the multinationals can ultimately learn for themselves about the local economy, politics and culture. However, as one manager noted, "In [this LDC], you have to understand the atmosphere more than anything -- and that takes time." Another executive expressed the same point this way: "One has a strong need for the partners' knowledge of the local market in the developing countries since it would take us twenty-or-so years to learn how to manage in it. The reason is that the locals have the mentality or mental outlook as to what is acceptable or unacceptable in the country."

(11) Meet Existing Government Requirements for Local Ownership or Import Substitution

At the time of entry into the joint ventures, the multinational executives from low-performing ventures felt that this was an important contribution (.05 significance) of their local partner. They rated its importance almost identically to the similar seventh item -- Satisfy Expected Government Requirements for Local Ownership/Avoid Political Intervention. These two items were the only ones in which the local partners in low-performing ventures were regarded as making an important contribution. As noted earlier, it is the type of partner contribution for which nearly any partner would suffice. The responses of the high-performing ventures were uniformly distributed.

(12) Technology or Equipment

At all points in time, the executives in both the high- and low-performing ventures felt that this was an unimportant contribution (.01 significance) of their local partner. Conversely, and as expected, the local shareholders considered this to be one of the three areas in which the foreign partners made an important contribution. These results are consistent with the traditional thinking on the role of technology in LDCs. The successful transfer of technology or equipment from the foreign to the local country did not, however, guarantee success for the joint venture.

While some ventures encountered difficulties as a result of technology or equipment, most MNEs were able successfully to transfer both physical goods and process to a local country. Especially in the core ventures, there was a recognition that more was involved than the physical transfer of equipment and operating manuals. In most cases, sufficient time was allocated to permit the local partner to understand technological processes being transferred.

(13) Functional Managers (Marketing, Production, Financial, etc.)

At both the time of entry into the joint venture and for the future, the multinational executives from low-performing ventures felt that their local partners' contribution of functional managers was unimportant (.05 significance). However, the multinational executives from the high-performing ventures felt that their partners' contribution of functional managers would be important (.05 significance) in the future. These results are both similar to the multinational executives' assessment of their local partners contribution of General Managers.

(14) Better Access to the Local Market for Goods Produced Outside It

Multinational executives from low-performing ventures felt that their local partners' contribution of "better access to the local market for goods produced outside it" was unimportant at both the present and for the future (.05 significance). Responses of multinational executives from the high-performing ventures were uniformly distributed.

(15) Better Export Opportunities

As with the previous item, multinational executives from the low-performing ventures felt that their partners' contribution of "better export opportunities" was unimportant (.05 significance). The responses of the multinational executives from the high-performing ventures were uniformly distributed. This was, however, the third area in which the local shareholders looked to their foreign partners for an important contribution, in this case expecting the contribution to become increasingly important (.05 significance) in the future.

(16) General Knowledge of the Foreign Economy, Politics, and Customs

The responses to this question were uniformly distributed for both groups of multinational respondents. The question had, however, been primarily designed for the local partners. Two of the three local shareholders did feel that their foreign partner made a contribution in this regard. This was consistent with their looking to the multinationals for better export opportunities. The problem which many local partners faced, however, was that multinationals had already staked out the countries to which each subsidiary or joint venture was allowed to export.

(17) Other

There were several items not included on the list provided to which multinational executives felt their local partners made important contributions. These were: (a) help on Board decisions, (b) knowledge of local financing, and (c) as a guide to "figures of importance" on the local scene.

TABLE VII-2

Partner Need: Summary of Questionnaire Responses

Abbreviated Statement from Questionnaire*	Point in Time of Measure	Aggregate of 12 MNE Executives	The MNE Executives in 7 High Performing Ventures	The MNE Executives in 5 Low Performing Ventures	The 3 Equity Holding General Managers
1. Faster Entry	Entry	.20	-	-	-
	Present	-	-	-	(.05)
	Future	-	-	-	(.05)
2. Local Politcal Advantage	Entry	.10	.10	-	-
	Present	.15	-	-	(.05)
	Future	-	-	-	-
3. Inexpensive Labour	Entry	(.01)	(.01)	(.01)	(.05)
	Present	(.01)	(.01)	(.01)	(.05)
	Future	(.01)	(.01)	(.01)	(.15)
4. Raw Material Supply	Entry	(.01)	(.01)	(.05)	.05
	Present	(.01)	(.05)	-	-
	Future	(.01)	(.05)	(.05)	-
5. Local Business Knowledge	Entry	-	-	-	-
	Present	.05	.01	-	-
	Future	-	.05	-	-
6. Better Market Access	Entry	-	-	-	-
	Present	-	-	-	-
	Future	-	-	-	-
7. Avoid Political Intervention/ Satisfy Expected Government Requirements	Entry	.15	.20	.05	-
	Present	-	-	-	-
	Future	-	-	-	-
8. General Managers	Entry	-	.05	(.05)	-
	Present	-	.01	-	-
	Future	-	.05	-	-
9. Capital	Entry	-	-	-	-
	Present	-	-	-	-
	Future	-	-	-	-

(continued)

TABLE VII-2 (cont'd)

Partner Need: Summary of Questionnaire Responses

Abbreviated Statement from Questionnaire*	Point in Time of Measure	Aggregate of 12 MNE Executives	The MNE Executives in 7 High Performing Ventures	The MNE Executives in 5 Low Performing Ventures	The 3 Equity Holding General Managers
10. Knowledge of Local Economy Politics & Culture	Entry	.01	.01	-	-
	Present	.05	.05	-	(.05)
	Future	-	.05	-	(.15)
11. Meeting Existing Government Requirements	Entry	.05	-	.05	-
	Present	-	-	-	-
	Future	-	-	-	-
12. Technology or Equipment	Entry	(.01)	(.01)	(.01)	.05
	Present	(.01)	(.01)	(.01)	-
	Future	(.01)	(.01)	(.01)	-
13. Functional Managers	Entry	-	-	(.05)	-
	Present	-	-	-	-
	Future	-	-	(.05)	-
14. Access to Local Market	Entry	.20	-	-	-
	Present	-	-	-	(.05)
	Future	-	-	-	(.05)
15. Better Export Opportunity	Entry	-	-	(.05)	-
	Present	-	-	(.05)	-
	Future	-	-	(.05)	.05
16. Knowledge of Foreign Economy, Politics & Culture	Entry	-	-	-	-
	Present	-	-	-	-
	Future	-	-	-	-

* Kolmogorov-Smirnov One Sample Test used to derive significance levels.

Notes: 1) Bracketed numeric values indicate that this statement was considered an unimportant contribution of the partner. Unbracketed values indicate the statement was considered an important contribution.

2) Given the small sample sizes in some cases, it is difficult to attain statistically significant findings of .05 or lower.

3. Time Dimension of Partner Need

An analysis was conducted using the Kolmogorov-Smirnov One Sample Test to determine which partner needs changed over time. Partner contributions which were considered unimportant tended to remain unimportant (see Table VII-3), while contributions considered important tended to vary in importance over time (see Table VII-4).

Six of the 14 total contributions (from the three groups in Table VII-3) rated as unimportant, steadily remained unimportant with time. For example, MNEs never looked to their local partners for technology or equipment. The MNE executives from the high-performing ventures certainly seemed much clearer with regard to which partner contributions they regarded as unimportant. The fact that MNE partners in low-performing ventures changed their assessments about the contributions their partners could make supports the earlier notion, that for success in LDCs, MNEs have need(s) for their partners which are more concrete and specific than simply to satisfy government regulations.

Only two of the nine important partner contributions remained steadily important. These were the need for knowledge of the local economy, politics, and customs and the need for general managers. Both were important to the MNE executives in the high-performing ventures. Four important partner contributions decreased in importance (see Table VII-4), and three increased in importance. Two of these three contributions were important to the MNE executives in the high-performing ventures (local business knowledge, functional managers), while the other was increasingly important to the local partners (better export opportunities).

TABLE VII-3

Changes in Assessment of Partner Contributions Considered Unimportant

	Item	Decreasing Importance Over Time	Steady Over Time*	Increasing Importance Over Time	Non-Directional Variation Over Time***
MNE Assessment of Local Partner Contributions Considered Unimportant in High Performing JVs (n=7)	3) Inexpensive Labour		+		
	4) Raw Material Supply		+		
	12) Technology or Equipment		+		
MNE Assessment of Local Partner Contributions Considered Unimportant in Low Performing JVs (n=6)	3) Inexpensive Labour		+		
	4) Raw Material Supply				+
	8) General Managers			+	
	12) Technology or Equipment		+		
	13) Functional Managers				+
	14) Access to Local Market	+			
	15) Better Export Opportunities		+		
LDC** GMs Assessment of MNE Partner Contributions Considered Unimportant (n=3)	1) Faster Entry	+			
	2) Local Political Advantage				+
	3) Inexpensive Labour			+	
	10) Knowledge of Local Economics, Politics and Customs				+

Notes: * to be defined as steadily unimportant, (.05 significance in any period) significance levels could not change by more than .05 across the three periods.

** Given the small sample size, results cannot be generalized beyond the Caribbean

*** The degree of unimportance varied in both directions for these items.

TABLE VII-4

Changes in Assessment of Partner Contributions Considered Important

	Item	Decreasing Importance Over Time	Steady Over Time*	Increasing Importance Over Time
MNE Assessment of Local Partner Contributions Considered Important in High Performing JVs (n=7)	5) Local Business Knowledge			+
	8) General Managers Supply		+	
	10) Knowledge of Local Economy, Politics & Customs		+	
MNE Assessment of Local Partner Contributions Considered Important in Low Performing JVs (n=5)	7) Avoid Political Intervention	+		
	11) Meet Existing Government Ownership Requirements	+		
LDC** GMs Assessment of MNE Partner Contribution Considered Important (n=3)	4) Raw Material Supply	+		
	12) Technology or Equipment	+		
	15) Better Export Opportunities			+

Notes: * to be defined as steadily unimportant, (.05 significance in any period) significance levels could not change by more than .05 across the three periods.

** Given the small sample size, results cannot be generalized beyond the Caribbean.

Given the way that relative importance of these partner contributions varies, it is still valid, as the pilot survey suggested, to view partner need in dynamic terms; there are both long and short term needs. In addition, however, it is correct to assess the relative importance of certain needs in absolute terms; certain needs either exist or they do not, and their condition does not generally vary.

4. Aggregate Partner Contributions

The multinational executives in aggregate felt that speed of entry was an important partner contribution at the time of establishing the joint venture. These same executives agreed that raw material supply, inexpensive labour supply, and technology/equipment were not important partner contributions.

The three local managers, all of whom were partners in the high-performing ventures, felt that the foreign multinationals made important contributions in the areas of raw material supply, technology/equipment, and export opportunities. They deemed four potential contributions of the multinationals unimportant: speed of entry into the local market; local political advantages; inexpensive labour supply; and general knowledge of the local economy, politics, and customs. Not surprisingly, the important needs of one partner are often the unimportant needs of the other, and vice versa.

The lack of need for a partner would result in poor performance in a joint venture for a number of potential reasons. For purpose of analysis, the reasons can be summarized in terms of efficiency and effectiveness. In any business it is inefficient to increase the number of organizational layers through which decisions flow, if there is no benefit to be derived from the increased communication. If a multinational does not look to its local partner for a contribution, it is not likely to receive one. Worse, however, it is unable to treat the business as a wholly-owned subsidiary, since equity holdings are shared with the local partner. This results in an efficiency cost to the MNE without a corresponding benefit.

In addition to the increased communication costs, most joint-venture partners -- even if they normally assume a relatively passive role -- have the option of becoming more involved in the operation of the business if they so desire. A number of instances were cited during the research interviews in which hitherto silent partners became more involved in the ventures' operations even though their contribution had been unsought. Given that the essence of a joint venture is the jointness of the decision-making, using this organizational form is not an efficient use of resources when a contribution from the partner is not sought.

Finally, other research on joint ventures in LDCs, as well as this, has noted the importance attached to the local partners' contribution of knowledge of the local economy, politics, and customs. In the majority of instances, local businessmen have a much better understanding than foreigners of this important influence on local business success. To form a joint venture in an LDC and not to utilize the important contribution the local partner can make in this regard represents an ineffective use of available resources.

5. The Relationship Between Partner Contribution and Performance

One of the patterns emergent from this research was that MNE executives in high-performing ventures looked to their local partners for greater contributions than did MNE executives in low-performing ventures. As Table VII-5 demonstrates, MNE executives in high-performing ventures considered that their partners made contributions of long-term importance in four unique areas, while MNE executives in the low-performing ventures did not consider any of their partners' contributions of long-term importance. Conversely, MNE executives from the low-performing ventures regarded their partners' contributions as unimportant in seven areas, while MNE executives from the high-performing ventures considered their partners' contributions unimportant only in three areas.

Multinational executives in the high-performing ventures characteristically looked to local partners for contributions in general managers, functional managers, knowledge of current local business practices, and general knowledge of the local economy, politics, and customs. These contributions can be collapsed into two general groups: local management and local knowledge. By way of contrast, multinational executives in low-performing ventures characteristically looked to their partners for contributions in (a) being able to satisfy expected government requirements for local ownership or to avoid political intervention, and similarly, (b) meeting existing government requirements for local ownership or import substitution.

The differences between the items considered important to each group are quite interesting. Executives in high-performing ventures generally

TABLE VII-5

The Relative Importance to MNE Partners of Local Partner Contributions in Successful and Unsuccessful Joint Ventures

		MNE Responses in High Performing Ventures	MNE Responses in Low Performing Ventures
Needs for Items Readily Capitalized	(1) Capital	-	-
	(2) Raw Material	Unimportant	Unimportant
	(3) Technology or Equipment	Unimportant	Unimportant
Human Resource Needs	(4) General Managers	Important	Unimportant
	(5) Functional Managers	Important	Unimportant
	(6) Inexpensive Labour Supply	Unimportant	Unimportant
Market Access Needs	(7) Access to Foreign Markets	-	Unimportant
	(8) Access to Any Market	-	-
	(9) Speed of Entry	-	-
Government/ Political Needs	(10) Existing Government Requirement	-	Important
	(11) Political Advantages	-	-
	(12) Forecast Government Requirements	-	Important
Knowledge Needs	(13) General Knowledge of Local Economy, Politics & Culture (EPC)	Important	-
	(14) General Knowledge of Foreign EPC	-	-
	(15) Knowledge of Current Business Practices	Important	-

Notes: When the words important/unimportant are used, this means at a statistical significance level of .05 or lower.

required specific partners to attain desired partner contributions, while executives in the low-performing ventures would be theoretically satisfied with any partner as long as he was a national of the local country. Given this disinterest in acquiring specific contributions from their partners, it is not surprising to find executives from low-performing ventures rating five additional potential contributions as unimportant. These were technology or equipment, general managers, functional managers, better access to the local market for goods produced outside it, and better export opportunities. These differences in attitude between the two types of MNE partners can be traced directly to their original approach to joint ventures. Some firms prefer to operate as wholly-owned subsidiaries while others acknowledge the contributions that local partners can make. (This subject is discussed more fully in the chapters on control and the theory of the multinational firm).

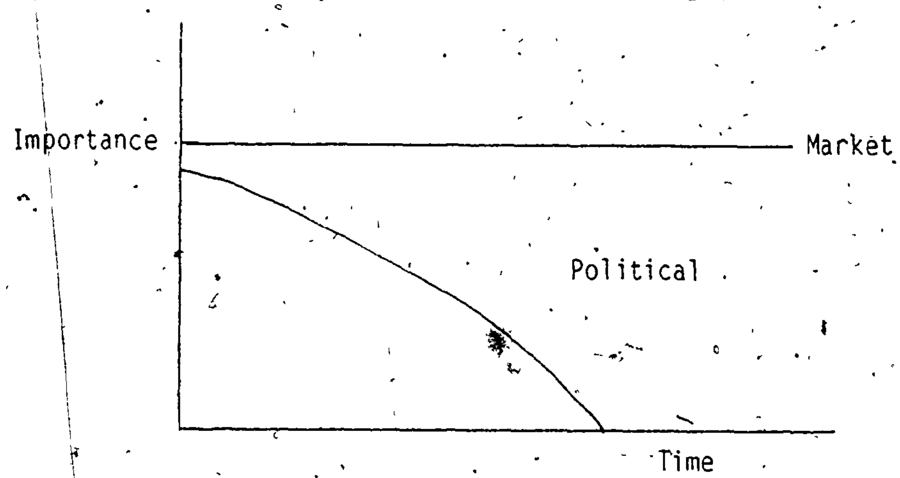
6. Market-Related versus Politically-Oriented Partner Contributions

Those local partner contributions considered to be of long-term importance in the successful ventures were: local management and local knowledge. Those local partner contributions considered to be important in the successful ventures only in the short-term were: (i) for local political advantages, and (ii) to satisfy expected government requirements for local ownership. These findings with respect to short-term needs may have been distorted somewhat by the changes in local government and consequent relaxation of regulations during the period. However, this is an incomplete explanation. Those items considered important in the long-term were all market related, that is, they were associated with contributions useful in improving the firm's competitive position. The short-term items were politically related. Thus, unless the joint ventures were being guaranteed monopoly positions (none were) by the current government, this research suggests that it still makes more sense for the multinational partner to look for market-related rather than politically-oriented contributions from the local partner. This general relationship between political orientation, rather than market orientation, and performance is summarized in Figure VII-1.

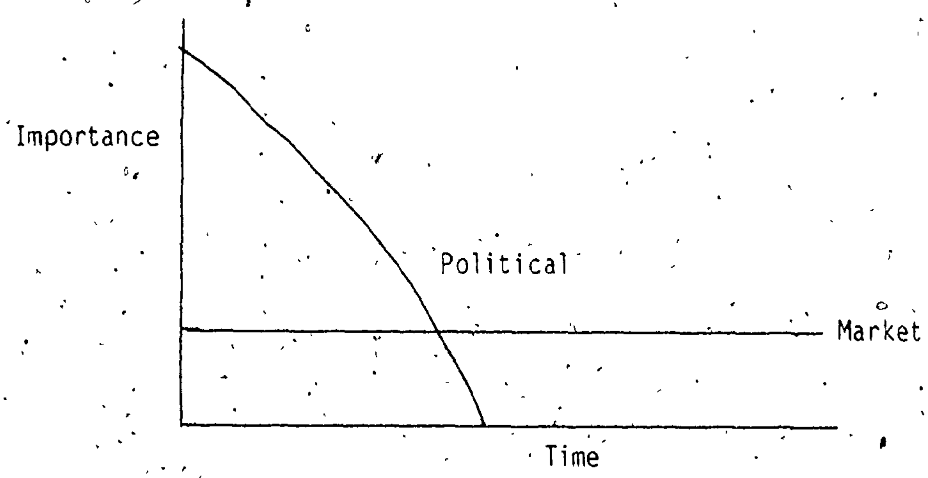
FIGURE VII-1

MNE Emphasis on Political Versus Market Issues
As They Relate to Performance

A. High Performing Ventures



B. Low Performing Ventures



VIII. COMMITMENT: ANALYSIS AND RELATIONSHIP TO PERFORMANCE

1. Introduction

During the pilot survey data-collection stage, a relationship was identified between joint-venture performance and the construct commitment. The MIS and Organizational Behaviour literatures were then drawn upon for their insights in determining, respectively, the types of commitment and the extent of commitment. Recognizing that this behavioural term -- commitment -- may be subject to differing interpretations, it was split into four types relevant to joint ventures. Each of these four types of commitment was then operationalized according to a number of statements. For each type of commitment, at least one statement was useful in measuring the existence, or lack, of commitment. Further, these statements were useful in distinguishing between ventures of satisfactory and unsatisfactory performance.

Part of the questionnaire administered in the 12 core ventures, concerned the degree to which 16 statements characterized joint ventures, and/or the parent company's attitude towards the venture. The 16 statements were equally divided into those designed to measure commitment to international business, to the joint venture structure, to the particular joint venture, and to the particular venture partner. The questions relevant to each of the four sub-groups were interspersed throughout the questionnaire but are regrouped here for purposes of analysis. These questions had been considered relevant either by executives interviewed during the pilot survey or by the researcher.

Based on a statistical analysis of the questionnaire responses, supplemented by notes from the 46 interviews, those statements can be discerned which were considered characteristic by foreign partners in contrast to local partners, and those which were characteristic in high-performing ventures in contrast to low-performing ventures. The results will be subsequently discussed in detail, but, in brief, there were six statements characteristic (at .05 significance) of the high-performing ventures and none of the low-performing ventures. Similarly, there were two statements characteristic (at .05 significance) of the local partners. These differed from the four statements considered characteristic of the foreign partners.

A five-point scale (uncharacteristic-somewhat uncharacteristic-average-somewhat characteristic-characteristic) was used for the questionnaire. In any case where a statement is described as characteristic or uncharacteristic, this means at a statistically significant level of .05 or lower. The statistical test used (Kolmogorov-Smirnov One-Sample Test), is explained in Appendix 2. The actual significance levels for each statement from the commitment questionnaire are summarized in Table VIII-1. As with the need responses, significance levels up to .20 are reported because of the small sample size, the fact that values to this level are generally included, and because even at the .20 level direction is suggested.

2. The Characteristics of Commitment

a) Commitment to International Business

i) The parent company places a strong emphasis on foreign investment. (Question 1)

The responses of the 12 multinational executives as a group suggested that there was parent company emphasis on foreign investment, although this

TABLE VIII-1

Commitment: Summary of Questionnaire Responses

Abbreviated Statement from Questionnaire	Aggregate of 12 MNE Executives	The MNE Executives in 7 High Performing Ventures	The MNE Executives in 5 Low Performing Ventures	Aggregate of (5)6 General Managers	The (2)3 Equity Holding General Managers	The 3 Non-Equity Holding General Managers
1. Foreign Investment	.20	-	-	-	-	-
2. LDC Foreign Investment	-	-	-	-	-	-
3. Willing to Form JV	-	.10	-	-	-	-
4. Minority JV	(.20)	-	(.05)	-	-	-
5. Cost Benefit of JV	.15	-	-	-	-	-
6. Contingency Plans	.15	.05	-	.05	.10	.15
7. Making the Venture Work	-	-	-	.20	-	-
8. MNE Willing to Visit	.01	.01	.15	.11	.05	-
9. Will Change Procedures	(.10)	-	-	-	-	-
10. Commit Resources	.15	-	-	-	-	.05
11. Regular Meetings	.05	.05	-	.20	.20	-
12. All Discussions	.05	.10	-	-	-	-
13. Special Skills	.10	.01	-	.01	.05	.05
14. Adapt Products	.10	.05	-	-	-	-
15. Additional Time	-	-	-	-	-	-
16. Nationals Employed	.01	.01	-	.01	.05	-

Notes: 1) Bracketed numeric values indicate that the statement is uncharacteristic of the respondents. Unbracketed values indicate the statement is characteristic.

2) Kolmogorov-Smirnov One-Sample Test used to derive significance levels.

statement was not characteristic at the .05 significance level. One executive pointed out that "we [our company] made a conscious decision early on that our initial investment in the [developing] region would not be our last investment in the area." There was no difference between executives' reponses from high and low-performing ventures. By way of contrast, several of the general managers who had been supplied by the foreign parent rated the MNE's emphasis on foreign investment lower than had their counterparts in the parent company. One general manager suggested that they had not entered the market willingly, but did so only because of the threat of losing an export market.

ii) <u>The parent company favours investment in the developing countries. (Question 2)</u>

This was one of only two questions for which responses were uniformly distributed among all groups. This suggests that favouring or being favourably disposed to invest in LDCs does not make a difference between high- versus low-performing ventures and foreign versus local partners. One of the executives who did not favour investment in the developing countries explained that this was simply because "investment is simpler in the developed countries."

iii) <u>The parent company is quite willing to adapt product to the needs of the local market.</u> (Question 14)

This statement was considered characteristic (.05 significance) of the multinational executives from the high-, but not low-, performing ventures. It is considered to be a useful measure of commitment to international business since it was hypothesized that those firms with an international orientation would be most willing to take steps with their product line to satisfy local market needs. Examples of product adaptation include product reformulation to account for local tastes and package-size changes to account for local preferences.

iv) <u>We have made a strong effort to increase the number of nationals employed in the venture.</u> (Question 16)

This statement was considered to be a potential indicator of commitment to international business because of the strong emphasis placed on staffing issues by both foreign and local partners. As well, it served to provide a check on several questions relating to the need portion of the questionnaire (i.e., those questions relating to the need for general/functional managers).

Like the previous statement, this was considered characteristic (.01 significance) of the multinational executives from the high-, but not low-, performing ventures. In fact, in several of the successful ventures, the MNE parent noted that he wished the expatriates he was using in other ventures were as competent as the local joint-venture general manager. This statement was neither characteristic nor uncharacteristic of the multinational executives from low-performing ventures. However, in all three cases where the statement was assessed as three or lower on a scale from one to five, the venture was a low performer.

In all seven of the high-performing ventures the general manager was a national of the local country. In fact, in five of the seven cases, the general manager was also the partner. In contrast, in four of the five low-performing ventures, there was either an expatriate general manager or a significant expatriate presence. In several cases, the multinational executives from the low-performing joint ventures were concerned that, if the general manager was from the local country, the government might attempt to play off his nationalist tendencies in such a way that he would put the country's interests ahead of the company's. To this end, some foreign firms always liked to have at least one expatriate present in their joint ventures. The general-manager respondents, and especially those who held equity, agreed that a strong effort had been made to increase the number of nationals employed in the venture. According to the equity-holding general managers, the fact they held equity did not affect the way they managed the venture.

We can speculate that this use of expatriates, rather than qualified local managers, results in a lack of knowledge of the local economy, politics, and customs, which in turn translates into poor performance. Certainly, the unwillingness on the part of some multinationals to find or develop qualified local managers -- when other companies in the same industry were able to do so -- demonstrates a lower commitment to international business.

b) Commitment to the Joint-Venture Structure

i) The parent company is willing to form a joint venture even when there are no government regulations requiring it to do so. (Question 3)

The responses of the multinational executives from the high performing ventures suggested support (.10 significance) in the hypothesized direction, although this statement was not characteristic at the .05 significance level. The statement was not characteristic of multinational executives in the low-performing ventures.

Some firms "have a strong conviction about the value of joint ventures" and have a "policy of using joint ventures when investing internationally." Other firms take an opposite stance, in one case being "much more committed to the local market than to the joint-venture organization structure for reaching that market." In summary, though, this statement is significant because it shows that this measure of commitment remained valid even when there were government regulations requiring the formation of joint ventures.

The reasons cited for using joint ventures were varied. One foreign executive noted that "If a country -- developing or not -- is sound, we do not need a partner. However, a good local partner helps if the country is not sound." Another preferred to use the joint-venture form since "there is so much corruption in the local country, it is better to keep a low profile." Yet, other companies favoured the use of joint ventures in some of the business segments in which they operated, and opposed their use in others.

In several cases in the research, foreign parent companies were acquired by other multinationals that had different policies towards the use of joint ventures. The newly imposed policies led in one case to the parent company being forced to convert its ventures to wholly owned subsidiaries -- with disastrous results.

ii) The parent company is quite willing to take a minority equity position in a joint venture. (Question 4)

The multinational executives from the low-performing ventures (.05 significance), rated this statement as uncharacteristic of themselves. The multinational executives in aggregate were also unwilling (.20 significance) to take a minority equity position unless they were able to structure the venture holdings in such a way that they were still the single largest shareholder, or could have the management contract. As one executive noted, "If we can't have a controlling interest, why put a lot of cash in?" The reactions of the multinational executives from the high and low-performing ventures were consistent with those to the previous questions.

iii) <u>The parent company spends a long time weighing the costs and benefits of using a joint venture over other organization forms.</u> (Question 5)

The responses of the multinational executives as a group tended (.15 significance, not the required .05 significance) to support the view that they spent a long time on the decision to use joint ventures. However, the general managers credited the multinational executives with spending more time on the decision than they actually did. One general manager noted that his foreign parent company spends "too long" weighing the costs and benefits.

iv) <u>The parent company has contingency plans for providing its joint ventures with increased levels of assistance if necessary.</u> (Question 6)

The 12 multinational executives in aggregate (.15 significance), and those from the high-performing ventures in particular (.05 significance), rated this statement as being characteristic of themselves. In most cases, however, these contingency plans were not particularly comprehensive. The equity-holding and non-equity-holding general managers credited the multinational executives with being more likely to have these contingency plans than the executives credited themselves. This and the response to the previous question suggest that the multinational executives have successfully created the impression with their general managers that they are more committed to the use of joint ventures than they are in fact. Since the contingency plans were not always formalized, this could imply that general managers may have greater scope than they realize in influencing the direction of the joint venture when problems arise.

c) Commitment to the Particular Joint Venture

i) We are more interested in making the venture work than in satisfying parent company concerns. (Question 7)

This question generated the greatest number of spontaneous reactions of any of the questions asked in the research. A number of general managers noted that they would like to hear their bosses' (MNE) responses to the question. One multinational executive noted that "my first reaction to this question is to avoid addressing it." As expected, the general managers as a group tended to view this statement as characteristic (although at .20 significance, not .05). One general manager noted that over the years he had increasingly become more interested in making the venture work than in satisfying parent company concerns. The responses of the multinational executives to the statement were uniformly distributed. One executive felt that the venture and parent company concerns were synonymous; however, most disagreed.

One executive suggested that for a venture to work it had to survive an early crisis. The three oldest ventures -- all successful -- had each survived a major challenge to their existence at some point.

ii) <u>Management from the parent company is quite willing to visit regularly and offer assistance to the joint venture.</u> (Question 8)

The multinational executives almost unanimously agreed (.01 significance) that they were willing to visit regularly and offer assistance to the joint venture. Only one executive acknowledged that they have not been as willing to visit "as much as we should." (The MNE-appointed general manager of the venture attributed the rarity of parent visits to "confidence in local management.") One other executive noted that they will offer assistance "provided it isn't money." The general managers as a group also agreed that the foreign parent company (although one locally-supplied GM took issue with the term "foreign parent" company) was willing to visit regularly and offer assistance to the joint venture.

For some of the ventures we can speculate that this willingness to visit the joint venture was related to their tropical locales. A number of MNE executives acknowledged the opportunity to combine business and vacation through a visit to the venture. One regional manager cynically noted that "the entire royal corporate entourage goes if it's a nice place to visit."

iii) <u>We are willing to commit resources (people, time, money) to the venture even when it should technically acquire these things on its own.</u> (Question 10)

The multinational executives as a group tended to view this statement as characteristic (.15 significance) of them. Typical of the responses here was: "We're willing to commit resources on a stop-gap basis but don't have the head office resources to spare on a long-term basis." The non-equity-holding general managers also felt the statement was characteristic of the foreign parent. One general manager suggested that this was due to the parent company's desire to "train its own management team."

iv) When special skills are required by the joint venture, we try to first find them in the parent organization. (Question 13)

In aggregate, the multinational executives indicated that this statement was characteristic of the venture. This was particularly true with the executives from the high-performing ventures (.01 significance). However, some of the MNE executives noted that they hoped their local partners and general managers would first look locally when special skills were required by the joint venture. The general managers were unanimous in looking to the parent organization first when special skills were required - yet another example of the different ways in which the main players in each venture view their roles.

d) Commitment to the Particular Venture Partner

i) We are willing to consider seriously changing our current working procedures and reporting requirements to accommodate our partner. (Question 9)

This statement was uncharacteristic (.01 significance) of the multinational executives. Several executives noted, however, that while they were not willing to change procedures to accommodate their partners they were willing to accommodate local conditions. In four of the six cases where there was both a general manager and foreign-parent respondent, there were wide differences in how each replied to this question. This suggests some breakdown in communication between groups as to how certain issues are to be treated.

ii) We try to ensure through regular meetings that each partner knows what to expect from the joint venture. (Question 11)

The multinational executives as a group, and those from the high-performing ventures in particular (.05 significance), considered this statement to be characteristic. The general managers as a group, and those holding equity in particular (.20 significance), also considered this statement to be characteristic. In four of the five cases where the statement was assessed 3 or lower (on the 5-point scale) by the MNE executive or his general manager, the venture was a low-performer. This relationship between low performance and low commitment to the partner suggests there are clear benefits to maintaining regular communication between the partners.

iii) We try to include our partner even in those discussions which the management agreement says we can handle ourselves. (Question 12)

Like the previous question, the multinational executives as a group (.05 significance), and those from the high-performing ventures in particular, deemed this statement to be characteristic. The responses of the general managers were particularly interesting. The two cases in which the general manager rated this statement higher than his parent company were both high-performing ventures. Conversely, the two cases where the general manager rated this statement lower than his parent company were both low-performing ventures. This suggests that such discussions are important and, also, that it may be the general managers and not the foreign parents who must assume responsibility for these discussions.

A number of managers commented on the role of joint-venture management agreements. One executive noted that "you should try to forget about the management agreement once it is signed"; another added that he knows his venture is currently having problems because the management agreement is "being referred to too often of late." Several managers commented on the relation of the management agreement to trust in the partner. As one executive pointed out, "the climate of trust between the partners is much more important than what is in the joint-venture agreement. (At the same time, the agreement should be a tight one as this is ultimately in everyone's best interests.) Trust is important because there is always an element of tension due to the possibility of a stalemate in the decision-making process."

iv) <u>We spend a great deal of time beyond normal hours with our partner working on venture business</u>. (Question 15).

The responses of all the multinational executives and general managers to this statement were uniformly distributed. One multinational executive, commenting on the lack of fresh ideas emanating from a declining venture, noted that "more suggestions for improvement would have come up if the general manager had spent more time with the partner."

Supplementary questions relating to each of the 16 statements were developed to measure the extent of commitment. By examining each response in the context of revocability, volition, explicitness and effort, an assessment could be made whether executives were exaggerating or underestimating the degree to which any statement characterized their firm. No discrepencies with the responses to any of the questions were observed. (This may have been due to the fact that every respondent knew at the start of the interview that his counterpart(s) in the joint venture had already been, or would be, visited).

3. Commitment Summary

Four statements were characteristic (.05 significance) of the 12 MNE respondents in aggregate: i) Management from the parent company is quite willing regularly to visit and offer assistance to the joint venture, ii) We try to ensure that through regular meetings each partner knows what to expect from the joint venture, iii) We try to include our partner even in those discussions which the management agreement says we can handle ourselves, and iv) We have made a strong effort to increase the number of nationals employed in the venture. No statements were deemed uncharacteristic of the multinational executives as a group.

Only one statement was classed as uncharacteristic and this was by the multinational executives from the low-performing ventures. The uncharacteristic statement was: "The parent company is quite willing to take a minority equity position in a joint venture."

Conversely, there was a total of six statements (see Table VIII-2) that the seven executives from the high-, but not low-, performing ventures considered to be characteristic. Three of these six statements were also considered characteristic of the aggregate group of 12 ventures. For each of the four levels of commitment (to international business, to the use of joint ventures, to the particular venture, and to the particular parent) there were between one and three statements that were characteristic of MNE executives from the high-performing ventures at a .20 or lower significance level.

The three equity-holding general managers (local partners) and the three non-equity-holding (MNE supplied) general managers in aggregate rated several statements as characteristic at a .05 significance level. These were: i) The parent company has contingency plans for providing its joint ventures with increased levels of assistance if necessary, and ii) when special skills are required by the joint venture, we try to first find them in the parent organization. Clearly, the general managers first look to the foreign parent organization when problems loom. One other statement was also characteristic in aggregate: "We have made a strong effort to increase the number of nationals employed in the venture."

There was one additional statement deemed characteristic (at .05 significance) by the equity-holding general managers and one statement by the non-equity-holding general managers. The other characteristic of the equity-holding general managers was related to parent-company willingness to visit and offer assistance. The characteristic of the non-equity-holding general managers was: "We are willing to commit resources to the venture even when it should technically acquire these things on its own."

In this research, the relationship of commitment to performance was identified; the construct commitment was subdivided into four discrete types, and measures for each type were developed that correlated with performance. This was much further than previous joint venture research had gone when it examined the role of commitment. Having finally reached a point where the importance of commitment to the performance of joint ventures in LDCs has been identified and empirically supported, there are new research questions which can be subsequently studied. One of these new

TABLE VIII-2

The Characteristics of MNE Partners
in Successful and Unsuccessful Joint Ventures

		MNE Responses in High Performing Ventures	MNE Responses in Low Performing Ventures
Commitment to International Business	Strong Parent Company Emphasis on Foreign Investment (1)	-	-
	Favours Investment in LDCs (2)	-	-
	Willing to Adapt Products (14)	Characteristic	-
	Increase the Number of Nationals Employed (16)	Characteristic*	-
Commitment to the Joint-Venture Structure	Willing to Form a Joint Venture When Not Required by Government (3)	-	-
	Willing to take a Minority Equity Position (4)	-	Uncharacteristic
	Does Cost/Benefit of Joint Venture Organization Form (5)	-	-
	Contingency Plans for Assistance (6)	Characteristic	-
Commitment to the Particular Joint Venture	Interested in Venture Concerns Before Those of Parent Company (7)	-	-
	Willing to Visit and Offer Assistance (8)	Characteristic*	-
	Willing to Commit Resources (10)	-	-
	Look for Special Skills First in Parent Organization (13)	Characteristic	-
Commitment to the Particular Venture Partner	Willing to Change Procedures for Partner (9)	-	-
	Hold Regular Meetings (11)	Characteristic*	-
	Include Partners in Additional Discussions (12)	-	-
	Spend Time Beyond Normal Hours (15)	-	-

Notes: When the words characteristic/uncharacteristic are used, this means at a statistical significance level of .05 or lower. Asterick denotes that the statement is also characteristic of the 12 MNE respondents in aggregate.

questions; how does a firm "get" commitment? Although this was not the research question underlying this study, several relevant observations can be made. Note, however, that because this is a different research question some of these comments are speculative.

Virtually all firms were capable of being committed to any or all of international business, the use of joint ventures, a particular venture, or particular partner. Given the relationship identified earlier between these types of commitment and satisfactory performance, it is important to understand how commitment is derived.

Any discussion involving a firm "getting" commitment (where presumably little commitment exists) involves the changing of attitudes (and subsequently behaviour). There is nothing mysterious about commitment. Most of the commitment characteristics in the high-performing ventures were related to the MNEs willingness to do something: adapt products, increase employment of nationals, visit and offer assistance, or supply special skills. Commitment was not precluded because of a firm's inability to undertake these activities.

Commitment is seldom anything which is instantly created, but must develop over time. In the foreign investment decision process, Aharoni felt "the very act of collecting information creates many individual commitments, and often organizational ones as well. In order to collect information it is necessary to communicate with people, to make certain decisions, and often to give tacit promises. In this process, commitments are accumulated..."(1) While the collection of information forms part of the basis for "getting" commitment, the managers in a firm will not be willing to go to the trouble of changing behaviour (i.e., adapting products, employing nationals, forming joint ventures, holding regular meetings, etc.) unless they genuinely believe that they will derive a benefit from such activities.

Once commitment is developed, however, it often takes on the status of a corporate value. Thus, while initial projects tend to receive a fairly rational cost/benefit analysis of their feasibility, later projects are more influenced by existing corporate attitudes. For example, if past corporate experience with joint ventures has been negative, it is unlikely that a firm will demonstrate much commitment to subsequent projects. Although these behaviours had a tendency to become entrenched, getting or increasing commitment was always possible.

Not surprisingly, there was a strong correlation between the commitment, need, and control observations. For example, those firms exhibiting a willingness to be flexible and undertake a particular activity (commitment) were likely to be the same firms favouring a sharing of decision-making (control) and looking for greater contributions (need) from their partners. These interactive effects, including statistical analyses, are discussed in the sections following.

4. Interactive Effects of Need and Commitment

This research has noted the positive association with performance of MNEs using local management, being willing to use voluntarily the joint-venture structure, of looking to the local partner for his knowledge of the local economy, politics, and customs; and having shared decision-making control. The responses from the various sections of the questionnaire (especially need -- NQ and commitment -- CMQ, but also control -- CQ, and ownership -- OQ) reinforced each other regarding: (i) staffing; (ii) the voluntary formation of joint ventures; and (iii) the importance of knowledge of the local economy, politics, and customs. Evidence of this consistency of response between need, commitment and other components of the questionnaire follows.

i) Staffing

Multinational executives from the satisfactorily performing ventures felt that their partners' contribution of general managers and functional managers was important. (This observation is derived from the need questionnaire - NQ.) Similarly, these executives felt it was characteristic to say that they had made a strong effort to increase the number of nationals employed in the venture (CMQ). In contrast, the MNE executives in the unsatisfactorily performing ventures felt that their local partners' contribution of general and functional managers was unimportant (NQ). In the unsatisfactorily performing ventures, the MNE parents preferred not to staff with nationals. In these unsatisfactory performers, the decision to replace a functional manager was usually (80% of cases) a decision dominated by the MNE partner (CQ). Yet, when this same decision was dominated by, or shared with the local partner, the venture was a satisfactory performer in 86% of the cases. Concerns that the direction of this relationship might be the opposite of that presented can be alleviated when we recall that most MNEs - even those assessed as unsatisfactory performers - were satisfied with performance. Table VIII-3 summarizes this relationship and also noted the major differences between the satisfactorily and unsatisfactorily performing ventures.

TABLE VIII-3

Assessing Performance in the Core Ventures

Core Ventures	Overall Assessment of JV Performance	MNE Partner's Assessment of JV Performance	Statistically Significant (.05) Observations Relevant to Overall Assessment of Performance for: Partner Need (NQ)	Commitment (CMQ)	Control (CQ)
1	Unsatisfactory	Unsatisfactory	MNE needs partner for political reasons only	No statements characteristic.	MNE has dominant control
2	"	"			
3	"	Satisfactory		One statement uncharacteristic	
4	"	"			
5	"	"			
6	Satisfactory	Satisfactory	MNE needs partner for local market knowledge and local management	Six statements characteristic	MNE shares control
7	"	"		No statements uncharacteristic	
8	"	"			
9	"	"			
10	"	"			
11	"	"			
12	"	"			

ii) Voluntary Formation of Joint Ventures

Multinational executives from the unsatisfactorily performing ventures felt that their local partners made an important contribution only in satisfying existing/expected government requirements for local ownership (NQ). Conversely, MNE executives from only the satisfactorily performing ventures felt it was characteristic of them that they were willing to form a joint venture even when there were no government regulations requiring them to do so (CMQ).

Not only was willingness to form a joint venture an issue, the actual equity arrangement was important. It was uncharacteristic of the MNE executives in the low-performing ventures to be willing to take a minority equity position (CMQ). Yet, only 20% of the joint ventures were successful in which the MNE partner was the majority shareholder. In contrast, 64% of the ventures in which the MNE owned less than half of the equity were satisfactory performers (OC).

iii) Local Knowledge

Multinational executives from the high-performing ventures considered their partners' contribution of knowledge of the local economy, politics, and customs to be important (NQ). Given the value these executives placed on their partners' knowledge, it was not surprising to find them deeming it characteristic that they try to meet regularly with their partner (CMQ).

The importance of local-partner input into the operation of the joint venture was also evident in the control observations. In 74% of cases, unsatisfactory performance was associated with management decisions in which there was dominant foreign (MNE) control. This is contrasted with an unsatisfactory performance level of only 24% when the local partner had input to the decision (CQ).

Having ensured consistency of response between the different components of the questionnaire, specific statements underwent statistical analysis to assess both their reliability and ability to differentiate between high- and low-performing ventures. Also, a statistical analysis was conducted on the combined importance of need and commitment in explaining joint-venture performance. Results of these statistical analyses are discussed in the next section.

5. Other Statistical Analyses

i) Reliability

Tests were applied to the need and commitment questionnaire items to determine if they reliable. Table VIII-4 presents the results of the internal consistency reliability tests. In this study the reliability coefficients varied from .79 to .95; and are considered to be sufficient for this stage of research.(2)(3) Consequently, the reliability coefficients obtained here would be considered quite satisfactory were it not for the small sample size. Ideally there should be ten times as many cases (ventures) as items (questions) to assume replicability of the reliability coefficients which resulted. Nonetheless, the results do indicate that the items used to measure need and commitment were not unreliable.

TABLE VIII-4

Reliability Analysis for Scale (No Split) for MNE Responses in Core Data

	No. of Cases	No. of Items	Alpha
Need (Time of Entry)	12	15	.810
Need (Present Time)	12	15	.895
Need (Future - 3 years hence)	12	15	.948
Commitment	12	16	.778

ii) T-Test

T-test calculations of the need and commitment items were made to determine if the questions differentiated between the high- versus low-performing core ventures. Again, while we recognize the sample size limitations pointed out earlier, the results in Table VIII-5 indicate, at significance levels of .05 or lower in three of the four cases, that the questions do differentiate between the high- and low-performing ventures.

TABLE VIII-5

T-Test Results for Core Ventures

	T-Value	Degrees of Freedom	1-Tail Probability
Commitment	2.66	10	.017
Need (Time of Entry)	2.01	10	.038
Need (Present)	1.51	10	.084
Need (Future)	1.93	10	.042

iii) Multiple Regression

The summated scores for need (at the three separate points in time) and commitment were individually regressed against the dependent variable, performance. The highest adjusted r-squared obtained was .441 for commitment. When need (at three points in time) was regressed with commitment against performance, the adjusted r-squared never exceeded the level of commitment alone. This relatively high adjusted r-squared (especially with commitment) further indicates the importance of need and commitment in explaining the performance of joint ventures in developing countries. Again, there are limitations on the data, so these regression results should only serve as further indications of the importance of need and commitment.

The fact that the emphasis on need and commitment was derived from a large sample pilot survey and was reinforced from further study of pairs of joint ventures for which country and industry were controlled, does suggest wider applicability of the research findings.

CHAPTER EIGHT NOTES

(1) Yair Aharoni, The Foreign Investment Decision Process (Boston: Harvard University, 1966), p. 3.

(2) J. Nunnally, Psychometric Methods (New York: McGraw-Hill, 1967), p. 226.

(3) Paul J. Peter, "Reliability: A Review of Psychometric Basics and Recent Marketing Practices," Journal of Marketing Research (Volume 16, February 1979), p. 15.

IX. MANAGERIAL IMPLICATIONS

The effects of partner need and commitment on performance have important implications for the management of joint ventures in LDCs. These effects can be summarized into a guideline. Managers can use this guideline to assess whether they should enter a joint venture, to better understand why their existing ventures are performing the way they do, and to provide some insight into the likely effect of changes to the joint venture structure.

1. A Joint-Venture Model

Figure IX-1 is a general guideline (which will be explained in more detail) for foreign companies forming manufacturing joint ventures in developing countries with local, private firms. The model incorporates the major findings previously summarized. This model is set up using the Business Policy strategy-structure-performance format, since this format provides an effective way of expressing the relationship between the major variables examined. Structure refers here to what Chandler called "the design of organization through which the enterprise is administered."(1) Frequently used organization design variables (2) would include, for example, the distribution of power, control, staff selection, and reward systems. The guideline is set up to proceed through a number of steps; the decision to form a joint venture, partner selection, and formal structure. Each step should satisfy a number of conditions in order to improve the prospects for success.

FIGURE IX-I

A MANAGEMENT GUIDELINE FOR THE ESTABLISHMENT OF SUCCESSFUL JOINT VENTURES IN DEVELOPING COUNTRIES

STRATEGY	CONDITIONS RELATING TO THE JOINT VENTURE ORGANIZATION FORM	CONDITIONS RELATING TO PARTNER SELECTION	CONDITIONS RELATING TO THE FORMAL STRUCTURE OF THE JOINT VENTURE	PERFORMANCE
- Defined in terms of products, markets, and possible forms of foreign investment →	Consider forming a joint venture when the MNE i) is committed to international business ii) is committed to the use of joint ventures iii) has a long term need for specific partner contributions →	Proceed with partner selection when iv) the MNE is committed to the particular venture, and v) particular venture partner, and vi) when the local partner has a long term need for the MNE →	Proceed with the establishment and organization design of the venture: vii) staff with local managers viii) sell equity to the general manager ix) take minority or equal amount of equity. x) have shared decision-making control →	Improved prospects for joint venture performance satisfactory to both partners

The guideline controlled for potential variations in a number of elements of the firm's strategy. The major market served was kept constant; the form of foreign investment was the same; and the products produced were quite similar. Yet, there was a difference between each pair of joint ventures in terms of performance. Why? Differences existed in both the formulation of joint venture strategies (decision to form a joint venture) and the implementation of these joint venture strategies (partner selection and formal structure).

Although not otherwise stated, the model for joint-venture success assumes that there is a legitimate market opportunity for the venture. Even a good match between joint-venture partners is of no benefit if there is no realistic chance of business success.

As noted earlier, the guideline may not be applicable under all environmental conditions. For example, it may not fit ventures designed to exist for a short period of time (i.e., fade-out joint ventures). Also, while many of the recommendations may ultimately prove useful when establishing any type of joint venture in LDCs, the guideline should at present be applied only according to the parameters specified in Chapter 1.

Conditions Relating to Investment in LDCs Using the Joint-Venture Organization Form

A firm should consider forming a joint venture when the MNE: i) is committed to international business; ii) is committed to the use of joint ventures; and iii) has a long term need for a partner for specific contributions.

i) Commitment to international business in the successful ventures was demonstrated by its willingness to (a) adapt products to the local market, and (b) increase the number of nationals employed.

ii) Commitment to the use of joint ventures was demonstrated in the successful ventures by being (a) willing to form a joint venture when not required to and (b) having contingency plans to provide extra assistance if necessary.

iii) MNEs look to local partners in the long term in the successful ventures for (a) their general knowledge of the local economy, politics and customs and (b) for managers. In the unsuccessful ventures, MNEs did not have any long term need for their partner. A specific need of the MNE from the local partner in the successful ventures was for general managers. A general need of MNEs for their local partners in the unsuccessful ventures was to satisfy existing/expected government requirements for local ownership.

Within the range of potential local private firms, a further ranking of possible partners can occur. First choice for a partner in a new manufacturing venture would be a firm in the same business, followed by the choice of a firm with manufacturing experience, followed by the choice of a partner offering a complementary service (such as distribution). The ability of the local partner to supply general managers with the appropriate experience declines with each.

The implication of point iii) is that certain types of partners are inappropriate in LDCs. Specifically, joint ventures between two MNEs or with the local public (via the stock market) do not satisfy the requirement of finding a partner with knowledge of the local economy, politics, and culture. Similarly, the local government is an inappropriate partner because of its inability to supply local managers. In addition, governments are motivated by other considerations besides performance -- high employment which may run counter to the joint venture's needs, for example.

If the firm is committed to international business and the use of joint ventures, and has a long-term need for a partner for specific contributions, it can begin searching for potential partners.

Conditions Relating to Partner Selection

A firm should only proceed with partner selection when: iv) the MNE is capable of being committed to a particular venture; v) the MNE is capable of being committed to a particular venture partner; and vi) when the local partner has a long-term need for the MNE.

iv) Commitment to the particular joint venture is demonstrated in successful ventures by (a) willingness to visit the venture when problems arise and (b) when special skills are required by the joint venture, by trying to first find them in the parent organization.

v) Commitment to the particular joint-venture partner is demonstrated in successful ventures by (a) holding regular meetings so each knows what to expect and (b) including partners in discussions that are not obligatory. For both commitment to the particular venture and venture partner, the MNE is capable of assessing before a joint venture is formed whether it will be willing to make the required effort.

vi) In the successful ventures, local partners look to the MNEs in the long term for better export opportunities. (At the time of entry, they look to the MNE for technology, equipment and raw material supply).

If these conditions can be satisfied, the firm should proceed with the establishment of the joint venture.

Conditions Relating to the Formal Structure of the Joint Venture

Four points of structure are recommended. The joint venture should: vii) staff with local managers; viii) sell equity to the general manager; ix) take a minority or equal amount of equity; and x) have the joint-venture agreement provide for shared decision making rather than dominant control by the MNE partner. These areas of organization design were all deemed useful.

By following these four recommendations relating to the formal structure, and the six previously outlined, the prospects for achieving performance satisfactory to both partners when establishing joint ventures in LDCs should be improved.

2. Comparative Case Studies in the Caribbean

To illustrate the guideline, two case studies are compared in this section. The two joint ventures were established in the Caribbean in the mid-1970s. These ventures were remarkably similar in their product/market strategies, but quite different in their joint venture strategies. Significantly, their prospects for success also differed. (To ensure confidentiality, names and figures are disguised; essential relationships, however, are maintained).

The two joint ventures, Alpha and Beta, both had annual sales in the range of \$5.0 million. Both produced primarily for the local market (negligible exports) and had high (50%) market shares. The firms were not direct competitors; the products produced by each venture were complementary. Each venture was between a foreign company (Canadian in the case of

Alpha, American for Beta) and a private local firm. Both of the private local firms were well established with previous experiences with MNEs. Both of the foreign companies were large (annual sales in excess of $1.0 billion), with previous experience in LDCs and with joint ventures. Both MNEs were earning a 20% ROE and were satisfied with the performance of their respective joint ventures. Unlike the Alpha venture, however, the local partner in Beta was dissatisfied with the joint venture for a number of reasons, which included, but was certainly not limited to, financial considerations.

Conditions Relating to Investment in LDCs Using the Joint Venture Organization Form

During the early stages of the foreign direct investment decision, one of the issues which MNE executives must resolve is how adaptive a stance to take. Some MNEs prefer to limit their adaptation, preferring the use of wholly owned subsidiaries to joint ventures, staffing with expatriates rather than nationals, and being unwilling to adapt their products to local conditions.

In the Alpha venture, the Canadian MNE partner never considered using a wholly owned subsidiary even though there was no government pressure to use the joint venture organization form. In addition, early progress was slowed for several months while a local general manager was found. The MNE partner believed that increasing the number of nationals employed, especially in managerial positions, would not only demonstrate greater commitment to the local community, but that it also made sound business sense. The MNE parent recognized that it lacked knowledge of the local economy, politics, and culture and looked to the local partner and local general manager for this. (An immediate payoff was in the area of plant construction: the plant was completed ahead of schedule and 18% below budgeted cost. The generally accepted explanation for the cost savings was that because the general manager was a national with local knowledge, he was able to "beat the local contractors down in cost".)

Until the early 1970s, the MNE partner in the Beta venture had been importing into the Caribbean from the U.S. When its major competitor, a European importer, approached the local government about establishing local manufacturing, the MNE was forced to act. The local government was offering not only a 5 year tax holiday but limitations on imports as well, and wanted only one local manufacturer. On the basis of their better-known brand name, the U.S. MNE was awarded the franchise for local production.

Because they expected to see government requirements for local ownership or some other form of government intervention, the U.S. MNE decided to form a joint venture even though they would have preferred a wholly owned subsidiary. As a reluctant joint venturer, it was their practice to always staff the senior positions with expatriates, and in addition to look for a partner with government contacts. The MNE wanted a partner who could assist in obtaining work permits for foreign executives.

Conditions Relating to Partner Selection

In the Alpha venture, commitment to the local partner was demonstrated by holding regular meetings, often informally over lunch, even when there were no agenda items. This was in direct contrast to the Beta venture where the MNE-supplied expatriate general manager felt it was uncharacteristic to include the local partner in any discussions which the management agreement said the foreign partner could handle themselves. Not surprisingly, the local partner in the Alpha venture felt the foreign partner trusted him; the local partner in the Beta venture did not feel the foreign partner trusted him. As the local partner in the Beta venture noted, "If you feel your partner does not trust you, little differences tend to aggravate situations". The implication of this for partner selection is to select a partner you are comfortable communicating with. Obviously, this can be difficult if, in the case of the Beta venture, the MNE-supplied general manager is replaced by another expatriate every few years.

Conditions Relating to the Formal Structure of the Joint Venture

In the Alpha venture, all of the local managers are from the local country. Although the general manager does not presently hold equity in the venture, all sides are in agreement that this would be desirable, and steps are being taken towards implementation. The MNE partner in this venture holds 40% of the equity and shares decision-making with the local partner. All partners are satisfied with performance.

In the Beta venture, the two senior managers are expatriates. The expatriate general manager does not hold an equity position. The MNE partner has a majority (65%) equity position. As well, the MNE partner has dominant control over decision-making, in fact operating the joint venture much like a wholly owned subsidiary. The MNE-supplied general manager considers this approach to decision-making control appropriate since he feels the local partner only views the joint venture as an investment. Unfortunately for all concerned, this is not how the local partner views its involvement. The local partner in the Beta venture feels that he knows the market and has a better way to develop the company. To date, the foreign partner has not been receptive to suggestions.

There are four areas of contention to the local partner. A brief discussion of these and comparison of how similar issues were handled in the Alpha venture illustrates a number of the points contained in the guideline. The four areas of contention were related to the distributor arrangement, management contract, relative equity positions, and profits.

The major product produced by the venture is distributed by a wholly owned subsidiary of the American partner. There have been major disagreements between the partners regarding the price at which production is sold to the distributor. The lower the price to the distributor, the greater the profit that the MNE partner does not have to share. The threat of similar non-arms-length transactions was avoided in Alpha venture by not distributing through the local partner's distribution company.

A second issue relates to the use of management contract, which is a source of income to the partner to whom this is awarded. The local partner feels the length of management contracts (which until now have always been awarded to the MNE partner) should be shortened to provide some control over poor performance. In the Alpha venture, management fees were tied to productivity.

A third issue was equity levels. The original agreement specified that the foreign partner would ultimately reduce its equity position to 45%

from 65%, with the local partner's being able to increase his holding to 45% and 10% being sold to other local interests. For the past two years, the local partner has been asking its partner to negotiate a price for this equity transfer; however, "they have been tardy in coming to a conclusion." The MNE partner readily acknowledge its reluctance to be a minority-equity partner.

The final issue is profits. While the MNE partner is earning, from a variety of sources, a 20% ROE from the business, the local partner with dividends as its sole source of income is earning less than 10% ROE. The local partner notes that his "patience over profits is running out." In the Alpha venture, both partners had a similar earnings level.

Major Differences

The Alpha joint venture was voluntarily entered into by the foreign MNE. They had a specific need for a partner with local knowledge, maintained regular communication with the partner, and shared in both the decision-making and profits. Both partners were satisfied with performance. This joint venture has good prospects for continued success.

The Beta joint venture was reluctantly entered into by the foreign MNE. They wanted a local partner only because of a perception that they would be better off with the local government if they had one. No contribution was expected from the local partner for local market knowledge or managers. No specific need for, or commitment to, was demonstrated by the MNE toward the local partner. The local partner was dissatisfied with this arrangement. This joint venture has some major problems to resolve if it is to survive. The major differences between the two ventures are summarized in detail, using the guideline, in Figure IX-2.

To assess the applicability of the guideline, it was also classroom tested by five professors on 400 graduating students using between one and six case studies involving manufacturing joint ventures in developing countries.(3) In all instances, the guideline was useful in addressing some of the problems/issues confronted in the venture.

3. Conclusion

"The governing idea with respect to the linkage of strategy and organization is that of congruence or fit".(4) Similarly, it was not enough for Alpha to adopt its joint venture strategy, it must also be implemented in terms of partner selection and organization design in a manner consistent with that strategy. Simply formulating an appropriate strategy is insufficient to determine success.

FIGURE IX-2
COMPARING THE ALPHA AND BETA VENTURES USING
THE MANAGEMENT GUIDELINE FOR THE ESTABLISHMENT OF SUCCESSFUL JOINT VENTURES IN DEVELOPING COUNTRIES

	STRATEGY	CONDITIONS RELATING TO INVESTMENT IN LDCs USING THE JOINT VENTURE ORGANIZATION FORM		CONDITIONS RELATING TO PARTNER SELECTION		CONDITIONS RELATING TO THE FORMAL STRUCTURE OF THE JOINT VENTURE	PERFORMANCE
	- defined in term of products, market, and possible forms of foreign investment →	Consider forming a joint venture when the MNE i) is committed to international business ii) is committed to the use of joint ventures iii) has a long term need for a partner for specific contributions	If these conditions are satisfied, begin looking for potential partners. →	Proceed with partner selection when iv) the MNE is committed to the particular venture v) the MNE is committed to the particular venture partner vi) when the local partner has a long term need for the MNE	If these conditions are satisfied, proceed with the establishment of the joint venture →	vii) staff with local managers viii) sell equity to the general manager ix) take minority or equal amount of equity x) have the JV agreement provide for shared decision making rather than dominant control by the MNE partner	→ Improved prospects for joint venture performance satisfactory to both partners
A L P H A	- food product - Caribbean market - joint venture between Cdn. MNE and private local firm	i) MNE willing to increase the number of nationals employed ii) MNE willing to form a joint venture when not required to iii) MNE looking to partner specifically for local knowledge and managers		iv) looks to parent organization when special skills required v) holds regular meeting and includes partner in discussions vi) local partner had a long term need		vii) staffed entirely with local managers viii) provision being made for local manager to acquire equity ix) MNE has 40% ownership x) shared decision-making	- "equal profits - both partners satisfied with performance - good prospects for continued success
B E T A	- food product - Caribbean market - joint venture between U.S. MNE and private local firm	i) MNE had limits on the number of nationals to be employed ii) MNE preferred use of wholly owned subsidiary iii) MNE looking for a partner to satisfy expected government ownership requirements (general need)		iv) parent company less often looked to first when special skills required v) local partner only included in minimum required meetings vi) local partner had a long term need		vii) the two senior managers are expatriates viii) general manager holds no equity ix) MNE has 65% ownership x) MNE has dominant control of decision making	- MNE satisfied with performance, local partner not - MNE earnings higher - poor future prospects unless changes made

POOR PRINT

CHAPTER NINE NOTES

(1) Alfred D. Chandler, Jr., Strategy and Structure (Garden City, New York: Doubleday, 1966), p. 16.

(2) Jay R. Galbraith and Daniel A. Nathanson, Strategy Implementation: The Role of Structure and Process (St. Paul, Minnesota: West Publishing Co., 1978), p. 96.

(3) Case Studies Involving Manufacturing Joint Ventures in Developing Countries:

Ampak International, Ltd., by David Springate, Southern Methodist University. Proposal for U.S. firm to enter its first joint venture. Pakistan, 1975.

Canada Royal (International)-(A) by Henry Lane, University of Western Ontario. Selection of a joint venture partner. South America, 1977.

Canada Royal (International)-(B) by Henry Lane, University of Western Ontario. Failure of a joint venture. South America, 1982.

Maple Leaf Tobacco (Kush) Limited-(B) by Thomas A. Poynter, University of Western Ontario. Formation of a joint venture with local government. North Africa, 1977.

Metalfabriken-(C) by Harold Crookell, University of Western Ontario. Start-up, consolidation and diversification of a joint venture majority owned by a MNE partner. India, 1972.

Two Ply Manufactures, Inc., by Raymond Vernon based on interviews conducted under the direction of L.T. Wells, Jr., Harvard College. Managing joint ventures: Ivory Coast, Mexico, 1970.

(4) Joseph N. Fry and J. Peter Killing, Canadian Business Policy: A Casebook (Scarborough, Ontario: Prentice-Hall Canada, 1983), p. 285.

X. EVALUATING THE CAUSAL INFERENCE

In any form of hypothesis testing in international-business field research, the researcher must distinguish between descriptive and causal hypotheses. While descriptive hypotheses only infer association, causal hypotheses are more powerful, also inferring determination of one variable from another. In this research a causal hypothesis is evaluated; specifically, that greater partner need and commitment will result in improved joint-venture performance in LDCs. This relationship was summarized in the guideline in the previous chapter. While causality between variables can never be proved, the researcher can provide a sufficiently credible argument that most readers will agree with the direction of causality inferred.

The "criteria which must be evaluated in causal hypothesis evaluation, in addition to association, are proper time sequencing of the variables and rival causal hypothesis."(1) What follows are the arguments -- using the three criteria just outlined -- which support the joint-venture performance causal hypotheses. In total, 20 reasons for supporting the hypothesis are cited.

1. Association

The central proposition regarding need/commitment and performance emerged early in the data-collection process. Because the hypotheses emerged early, according to McCall, a measurement approach was required to evaluate this type of descriptive hypothesis. Here, measurement refers to "logical deductions for operationalizations that could indicate a theoretical construct".(2)

The theoretical constructs of partner need and commitment were operationalized using a number of statements derived from the pilot survey interviews and a literature review. The statistical analyses conducted (using Chi Square, Kolmogorov-Smirnov, and Multiple Regression) on the pilot survey and core venture samples inferred that an association did exist between partner need/commitment and joint-venture performance.

Inferring association is a necessary but insufficient condition for inferring causality. The two other required criteria for evaluating causal hypotheses -- proper time sequencing of the variables and rival causal explanations -- must be considered.

2. Sequencing

The time-ordering of variables is a key consideration in discussions regarding inferences of causality. Four relationships are examined in this section, three of which relate to need, commitment, and control, and to their direction of effect on performance. The fourth discussion focusses on performance itself, examining the impact of the MNE's satisfaction with performance on the overall assessment of the joint venture's performance. (See Figure X-1 for a summary of the causal relationships examined.)

FIGURE X-1

Causal (Sequential) Relationship Examined

(A)	MNE satisfaction with performance	⟶	Overall Assessment of JV as Satisfactory Performer
(B)	MNE need of local Partner for knowledge and management	⟶	Satisfactory JV Performance
(C)	MNE Commitment	⟶	Satisfactory JV Performance
(D)	Shared Control	⟶	Satisfactory JV Performance

In each of the following discussions on sequencing, arguments are provided to support the causal inference. Note that overlap does exist between the arguments provided for each discussion. Also, with each discussion support often comes from different directions. It is this process of triangulation that helps to strengthen the inferences made.

a) Performance

The claim could be made that in those ventures performing well, the foreign partners were more generous in their assessment of their own need for the local partner then they would have been if the venture had been performing poorly. That is, as a result of satisfactory performance, the MNE partner assessed certain contributions as more important. However, in several of the low-performing ventures the foreign partner was pleased with the venture's performance. These ventures were classed as low performers because the local partner was not satisfied with the venture's performance (see Table VII-3). This demonstrates that there is no necessary correlation between the MNE's assessment of performance and the overall assessment of joint venture performance. As the last column in Table VIII-3 shows, whether the MNE partner alone was satisfied or not, there were separate and distinct MNE attitudes toward the local partner prevalent in those ventures assessed as unsatisfactory, as opposed to satisfactory, performers. Given that most of the MNEs were satisfied with performance, and yet major differences existed in MNE attitudes toward the local partner when using the overall assessment of joint venture performance, these observations suggest that MNE respondents were not more generous in their partner assessments because of satisfaction with performance. Hence, the likelihood of bias within the performance measure can be reduced.

To reinforce this point it should be noted that the significance levels associated with the different responses in the satisfactory versus unsatisfactory performance of ventures are particularly remarkable given the small sample sizes.

b) Partner Need

In addition to the previous discussion, which suggested that the performance measure helped control for biased responses to the need questionnaire, there are several other arguments which tend to support the hypothesized time-oriented relationship between partner need and performance. As referenced earlier in the section on joint-venture partner-need literature, many researchers have independently considered mutual long-term need between partners to be an important issue in assessing a venture's potential success. In fact, it was this common reference to the need → performance (not performance → need) relationship in the literature that partially prompted the focus in this study.

A three-part questionnaire was used to assess partner need. Partner need was assessed for the time of entry into the joint venture, the present, and a prediction for three years hence. The questionnaire respondents acknowledged that partner needs changed with time. In addition, the pattern of change was consistent with other observations in the literature on international business. For example, in the high-performing ventures, the MNEs noted the increasing importance they attached to the local partners' contribution of functional managers. This is not surprising, given both the increasing costs of staffing with expatriates, and the increasing number of qualified local managers available.

c) Commitment

To reduce the likelihood of retrospective bias effecting the hypothesized commitment → performance sequential relationship, supplementary questions were asked (see Appendix 3) for each of the 16 statements the MNE respondent assessed regarding commitment. An example illustrates the usefulness of these questions. In the high-performing (and not low-performing) ventures the MNE respondents noted their efforts to increase the employment of nationals in the venture. To reduce the likelihood of retrospective bias, one of the supplementary questions asked about the MNE staffing policy for foreign subsidiaries. It was observed that the MNEs in the high-performing ventures were not influenced by current performance but had a long-standing policy of using local managers where possible, while the MNEs in the low-performing ventures had a policy of using primarily expatriates.

Just as previous joint-venture researchers had noted the importance of partner need on performance, both Tomlinson and Schaan noted the positive influence of commitment on performance.

Another factor that prompted the research focus on the relationship between commitment and performance was the pilot survey interviews. The pilot survey interviews, as well as subsequent interviews, continued to reinforce the importance of commitment on performance. The fact that the time-ordering of the variable by both the executives and joint venture researchers was always the same (i.e., need/commitment → performance) supports the causal inference.

d) Control

As it does for partner need and commitment, the joint-venture literature supports the use of a time-ordered inference of control influencing performance (see Killing, Janger, Tomlinson) rather than performance influencing control. In the case of joint ventures in LDCs, the hypothesized relationship was that performance would be improved when control was shared with the local partner.

The impact of control is relevant not only in the joint-venture literature but also in the Theory of the Multinational Enterprise. The role of joint-equity ventures in the Theory of the Multinational Enterprise (with particular emphasis on Internalization) has hitherto received very limited attention. The chapter following reviews the empirical support for Hymer's (3) and Dunning's (4) views that shared control of foreign subsidiaries (through joint ventures) does seem to be an appropriate organization form for success in LDCs.

3. Rival Explanations

"Field research rarely discredits most of the rival causal hypotheses."(5) In this section a large number of rival explanations are explicitly considered. Six variables -- other than partner need -- were correlated with performance (and found to have no statistically significant relationship). Several turnaround cases are also reviewed; they provided additional support for the causal hypotheses.

a) Other Variables and Performance

Six other variables that might alternatively explain ~~the hypothesized~~ relationship, were correlated with the high- and low-performing ventures using a chi-square analysis. There was no correlation with performance between either

(i) the MNE country of origin (U.S., U.K., Canada),

(ii) joint ventures sales level,

(iii) joint venture market share,

(iv) whether the venture exported,

(v) market segment served (industrial versus consumer goods), or

(vi) age of venture.

While the discounting of these rival explanations certainly does not prove causality, it adds weight to the argument.

b) Turnaround Cases

Three of the 12 core ventures had performance problems earlier in their histories. The turnaround of each venture was characterized by increased emphasis and reliance on the use of local managers (including selling equity to them), and on the contribution of the local partner of local knowledge. The MNE partners also placed a greater emphasis on sharing versus dominating decision-making control in these turnaround cases.

4. Summary

While there has been some overlap between the reasons cited for supporting the causal hypotheses, this overlap has been limited. As stated earlier, causality between variables cannot be proved, only inferred. Table X-1 summarizes the 20 reasons cited for supporting the causal hypotheses.

TABLE X-1

Causal Hypothesis Evaluation Summary

I.	Association	1) Pilot survey insight 2) Chi-square analysis 3) Kolmogorov-Smirnov analysis 4) Multiple regression analysis
II.	Sequencing	5) Performance - the MNEs versus the aggregate measure 6) Performance - significance levels 7) Partner need - consistent with literature 8) Partner need - questionnaire designed to look at change over time 9) Commitment - supplementary questions used to increase response accuracy 10) Commitment - consistent with literature 11) Commitment - pilot survey interviews 12) Control - consistent with JV literature 13) Control - consistent with Internalization theory
III.	Rival Explanations	14) MNE country of origin 15) JV sales level 16) JV market share 17) JV age 18) Whether JV exported 19) Market segment served 20) Turnaround cases

Most of the reasons cited for supporting the causal hypothesis were derived either from the relevant available literature or from the actual practice of MNE and local managers in joint ventures. One of the reasons for supporting the causal inference, however, was tied more closely to theory. In the next chapter, the previously cited empirical evidence is reviewed, and found to support the role of joint-equity ventures in the theory of the multinational enterprise. This chapter further corroborates the causal inference.

CHAPTER TEN NOTES

(1) H.W. Smith, Strategies of Social Research (2nd ed., New Jersey: Prentice-Hall, 1981), p. 103.

(2) G.J. McCall, "The Problem of Indicators in Participant Observation Research," in G.J. McCall and J.L. Simmons (eds,), Issues of Participant Observation: A Test and Reader (London: Addison-Wesley, 1969), p. 237.

(3) Stephen H. Hymer, The International Operations of National Firms: A Study of Direct Foreign Investment (Cambridge, Mass.: M.I.T. Press, 1976), p. 68.

(4) John H. Dunning, American Investment in British Manufacturing Industry (London: George Allen and Unwin, 1958), p. 101.

(5) Smith, op. cit.

XI. THE ROLE OF JOINT-EQUITY VENTURES IN THE THEORY OF THE MULTINATIONAL ENTERPRISE

1. Introduction

Robock and Simmonds (1) have suggested that practice has run ahead of theory in the field of international business. As a small step in bringing theory and practice closer together, this chapter places the previously cited empirical evidence on the joint-venture organization form in the context of the theory of multinational enterprise.

As the joint-equity venture is an important form of foreign direct investment, it is somewhat surprising to find such limited consideration being given to joint-equity ventures in the theory of the multinational enterprise. In earlier work, Wells (2) noted that the theory of the firm makes only limited contributions to an understanding of the ownership preferences of MNEs. The recent shift in the literature toward developing a global theory of the firm (Buckley and Casson,(3); Casson,(4); Rugman,(5)) has focussed on the contribution of internalization theory, which in turn has drawn heavily on the transaction-cost emphasis of Coase (6) and Williamson (7). Internalization theory requires explicit study of the role of joint ventures if it is to become a more widely accepted explanation of the MNE.

In the next section, the main features of internalization theory are reviewed. This is followed by a discussion of the relevance of joint ventures as compared to the wholly-owned subsidiary form of foreign direct investment, especially in a less-developed country (LDC) context. Up to this point, joint ventures have been generally treated as non-equity forms of foreign involvement in internalization theory. The provision of new empirical evidence represents a necessary addition to the theory. The section that reviews the empirical evidence contrasts the performance of two groups of joint ventures in LDCs. The first group of joint ventures operates essentially as wholly-owned subsidiaries; the MNE maintains dominant control of the decision-making. The second group of joint ventures had joint-partner involvement; control was shared between the MNE and the LDC partner. As the shared-control ventures are found to be more satisfactory performers than those operated as wholly-owned subsidiaries, the next section analyzes some reasons for the difference. Significantly this is done in such a fashion that the acceptability of internalization theory as a suitable explanation of the MNE can be maintained. In the final section, further support for this view is provided by reviewing two other recent studies of joint ventures.

2. The Theory of Internalization

A theory of the multinational enterprise should be as applicable to joint ventures as the wholly-owned subsidiary form of foreign direct investment. The empirical propositions of a modern theory of the MNE should also apply equally well across the other forms of investment that MNEs use. A discussion of the modern theory of the MNE follows, which can be applied at both theoretical and empirical levels to help explain performance using either the joint-equity venture or the wholly-owned subsidiary. Thus, emphasis in the empirical discussion is on choosing between foreign direct investment modes of transacting, rather than on Williamson's (8) more basic discussion of markets versus hierarchies. (For a discussion of market transactions (i.e., licensing) versus hierarchies (i.e., investment through wholly-owned subsidiaries or joint ventures), see Wells (9), Hood and Young (10) and Killing (11)). In addition, focus is placed on MNEs' internalization of markets of proprietary and non-proprietary know-how, rather than on the two other categories of internal markets (intermediate product markets, international capital markets), which Teece (12) identifies. The following review of internalization theory closely follows Rugman's (13):

> The theory of internalization can be traced from the literature on industrial organization which recognizes the existence of transaction costs and market failure. Coase (14) first demonstrated that under certain conditions it is more efficient for a firm to create and use an internal market. In fact, in some cases of market failure such a regular market may not exist. An example can be found in the pricing of proprietary information generated within a firm, which takes on the attributes of a public good. The assignment of property rights to a firm and that firm's specific advantage in knowledge are the essence of internalization. To Dunning (15), this firm-specific knowledge may be in production (i.e., patents, process know-how, R&D and design skills), or marketing (i.e., brand names, advertising).
>
> The failure of a market to price a public good is one of many natural market imperfections. In addition, there often exist many restrictions on the use of a markets, such as those imposed by governments. These may take the forms of regulations, taxes, or controls, and they serve to distort market prices which then provide an incentive for the firm to create an internal market.

When either natural or unnatural market imperfections exist across nations, (i.e., restrictions on trade, such as tariffs) there is an incentive for the MNE to create an internal market, in the same manner as a domestic firm responds to market failure and regulation. Because there are more regulations between nations than within them, there is an even greater incentive for the MNE to have an internal market.

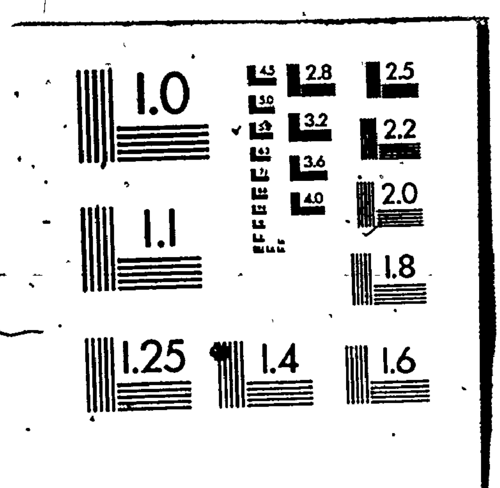
The first application of the market-imperfections approach in an international context was by Hymer in his 1960 dissertation, subsequently published in Hymer (16). He identified imperfections such as monopoly control of raw materials or managerial and research skills, any one of which can lead to the development of a firm-specific advantage for the MNE. The notion of internalization originated with Buckley and Casson (17) and has been expanded by Casson (18) and Rugman (19).

Dunning (20) paralleled this approach by seeking to explain the MNE in terms of an eclectic theory of international production. This approach integrates internalization theory - with its focus upon a firm's ownership specific advantage - with other elements of international economics, such as the location-specific variables which also determine foreign direct investment. Rugman (21) feels that there is little substantial difference between the eclectic theory developed by Dunning and internalization theory because these latter location- or country-specific factors explain trade patterns between nations, rather than intrafirm trade. He notes that the MNE develops in response to imperfections in these goods or factor market. Then the country-specific advantage of a nation - which leads to trade - is replaced by a firm-specific advantage internal to an MNE - which leads to FDI (22). For intrafirm trade to occur, firm-specific advantages must exist.

There are costs of running an internal market that serve both to limit the power of the MNE in exploiting its advantage and to reduce its ability to earn excess profits in the long run. The costs of co-ordination and control within a firm have been analyzed by Williamson (23) in a domestic context. He identified the hierarchical structure and resulting factors that limit the growth of the firm's internal market. These can be extended in an international context to explain the limits to the power of an MNE. While each MNE has essentially a monopoly in its advantage in firm-specific knowledge, the opportunities available to the firm for the successful exploitation of this advantage are limited over time by the costs and difficulties in expanding its internal organization. Both Calvet (24) and Teece (25) have also followed the markets and hierarchies approach in delineating a theory of the multinational enterprise.

The benefits of internalization act as an incentive for constantly using new technologies and knowledge advantages specific to the MNE, with performance constrained by the costs of running a successful internal market. External competitive influences

3 OF/DE 3



also affect the performance of the MNE, especially in the long run.

The key characteristic of the MNE is that is has a firm-specific advantage in knowledge. Therefore, by definition, the MNE is a monopolist. There are potential competitors and seekers of the knowledge of the MNE, but as long as the MNE retains control over its firm-specific advantage it retains its monopoly. To keep control over the use of its monopolistic advantage the MNE is compelled to favour use of an internal market. Contractual arrangements, such as licensing and joint ventures, are risky for the MNE. An inappropriate form of non-equity involvement has the potential to destroy the firm-specific advantage of the MNE, without which it ceases to be monopolist and runs the risk of losing its market niche.

3. Foreign Direct Investment

Certain types of joint ventures, construction projects, for instance, are little more than contractual arrangements. A finite end to the agreement is specified from the beginning in such cases. The majority of joint ventures, however, are much more than contractual arrangements. They are joint-equity investments formed with the same longer term outlook as wholly owned subsidiaries.

Internalization theory considers contractual joint ventures as risky for the MNE because it jeopardizes the key characteristic of the MNE - its firm-specific advantage in knowledge. Given the even longer term nature of joint-equity ventures, one might expect this type of venture to be even riskier for the MNE. Yet, many MNEs will voluntarily form joint-equity ventures, in fact preferring them in some cases over wholly owned subsidiaries. It is this reality which must be reconciled with internalization theory as it now stands.

According to internalization theory, using a joint venture or licensing involves the potential risk of losing or dissipating some of the firm's specific advantage in information. Why would a firm permit the externalization of a portion of its knowledge by establishing a joint venture? Dunning (26) suggests that one reason firms are willing to set up joint ventures rather than wholly owned subsidiaries is because of gains reaped through joint internalization. While this is a useful observation, it is insufficient; it does not specify those conditions under which the gains are likely to exceed the costs of joint internalization.

The basic hypothesis which attempts to explain why joint ventures are sometimes the most appropriate form of foreign direct investment can be briefly summarized as follows. In markets requiring high levels of local information and adaptation, the MNE cannot effectively internalize the market by itself. The MNE has a firm-specific advantage in production or marketing knowledge, but it requires knowledge of the local economy, politics, and customs. In this type of knowledge the local firm has an ownership-specific advantage. Consequently, both the MNE and local firms are monopolists, but only in certain separate types of knowledge; both types are important for successful foreign direct investment. By merging their respective internal markets in a joint venture, the two partners are able to create a more effective monopoly than either could have, operating individually. A more detailed explanation of the origins of this hypothesis is required.

Hymer (27) states that the use of joint ventures can be viewed as a strategy to overcome inequality of information and experience. Dunning (28) notes that one of the considerations important in determining the form of subsidiary organization is the benefit to be attached to the experiences of local owners. For many MNEs, LDC markets are typical of those requiring high levels of information and adaptation. There is a high, perceived benefit attached to knowledge of the local economy, politics, and customs. In fact, Stopford and Wells (29) observed that the major contribution to the MNE of local partners at the time of formation of joint ventures was this local knowledge.

Caves (30) provides several positive reasons - both of which are consistent with the observations and transactions approach in this study - that cause MNEs to seek out joint ventures. The first of these is the MNE's lack of some capacity or competence needed to make the investment succeed. An obvious case is the MNE diversifying geographically and lacking in managerial know-how for competing in the new market. Another reason lies in the MNE's need for specific resources possessed by local joint-venture partners. These needs include knowledge about local marketing or other environmental conditions. Joint ventures economize on the information requirements of foreign investment and are thus likely to appeal when these information requirements are most burdensome. Caves adds that joint ventures seem to be prevalent as MNEs proceed toward more unfamiliar host countries, citing Saham's (31) finding that joint ventures are uncommon in culturally familiar LDC settings.

In addition to the use of joint ventures increasing in more unfamiliar settings, the characteristics of joint ventures were also observed to be different in less developed countries. Earlier chapters noted differences in stability, autonomy, ownership, reasons for creating the venture, and management control. This last difference is of particular interest; the literature on joint-venture control tends to provide some support for the hypothesis and can be reconciled to the notion of internalization.

The pattern of managerial control from the joint-ventures sampled in LDCs and developed countries was clear. Killing (32) like Kolde (33), felt that one partner should assume dominant control and operate the venture as if it were a wholly-owned subsidiary. Concluding that control of the joint venture should not be shared, Killing implies that wholly owned subsidiaries may be more appropriate than joint ventures in the developed countries. This is consistent with the earlier hypothesis because it suggests that there are relatively lower requirements for adaptation and information for the MNE when it invests in other developed (versus developing) countries. In such a case, the MNE's advantage -- firm-specific knowledge of production/marketing -- is sufficient.

Further empirical support is provided for the view that the use of joint ventures by MNEs is more appropriate in developing than in developed countries. Support is provided first by reviewing the importance of the local partner's distinctive ownership-specific knowledge advantage. Further support is provided by reviewing the MNE's attitude toward managerial control, including its relationship to performance.

4. Local Knowledge and Performance

Based on the earlier hypothesis that, for successful foreign direct investment MNEs require access to the ownership-specific advantage of local firms, examination focused on the importance MNEs attached to their local partners' contribution of this knowledge. The pattern of results observed when the importance of the local-partner contributions to the MNE were compared in the successful and unsuccessful ventures tended to provide support for internalization theory. Differences were observed between the successful and unsuccessful ventures in terms of human resource needs, government/political needs and knowledge needs. Significantly, the MNE partners in the successful ventures deemed their local partner's contributions of general managers, functional managers, general knowledge of the local economy, politics, and customs, and knowledge of current business practice, as important. Not only were none of these local-partner contributions important to the MNE partners in the unsuccessful ventures, in the cases of general and functional managers, these MNE partners went so far as to class the local partner's contribution as unimportant. Of significance here is the association between success and obtaining access to local knowledge, and the association between lack of success and not attaching importance to this local-partner contribution. The only areas in which the MNE partner in the unsuccessful ventures felt their local partners made important contributions were in the areas of satisfying existing or forecast government requirements for local ownership. In such cases, any local partner would suffice, since it was only access to the local partner's nationality (as opposed to knowledge) that was desired.

As will be evident in the next section, the MNE partners in the unsuccessful ventures preferred to operate without a partner as much as possible. Unlike the MNE partners in the successful ventures, they were unwilling to share control in exchange for access to local managers and their local knowledge.

5. Management Control and Performance

A control questionnaire developed by Killing was administered to the MNE partners in the core ventures. There was a significant (see Chapter IV, p.. 53) relationship between unsatisfactory performance and overall foreign-dominant control, and between satisfactory performance and shared or local-dominant control.

Recall that, for a venture to be classed as having a foreign-dominant control, it had to be managed like a wholly owned subsidiary. The results then support the hypothesis. In markets requiring high levels of information and adaptation, MNE access to knowledge of the local economy, politics, and culture is so important that trying to manage without it (i.e., as a wholly owned subsidiary) negatively effects performance. The countries in which the study was conducted are such markets.

6. Other Research on Joint Ventures and Internalization

There have been several other recent attempts to reconcile joint ventures with internalization theory. Observations from two joint venture studies in slightly different contexts are reported in this section.

Ninety percent of the manufacturing subsidiaries established by third world multinationals in Wells' (34) recent study were joint ventures. Most of this investment took place in other developing countries. Wells noted that the competitive advantage which the Third World investors could offer derived from technologies enabling them to manufacture at low cost. These technologies involved small scale flexible plants and considerable use of local inputs. Due to a lack of data about the contributions which a local partner could make to a developing country foreign investor, Wells speculated that the same contributions important to developed country investors would exist. Consequently, third world MNEs are considered similar to the MNEs from the developed countries in the present study in that presumably they also require local market knowledge from their partner.

Wells expects the life cycles of many manufacturing subsidiaries of developing country firms to be short because the MNE is not able to provide a sustainable competitive advantage. While the MNE may continue to require knowledge of the local economy, politics and culture from the local partner, the local partner will be able to copy the MNEs contribution much faster. Third-world MNEs were found to be rarely building trade names, undertaking research and development, or concentrating their efforts on activities from which they could build a sustainable advantage. As a result, the benefits of joint internalization (what Wells calls partial internalization) would seem to be shorter for third world MNEs than for the MNEs from developed countries in the present study.

Stuckey, (35) in his study of Vertical Integration and Joint Ventures in the Aluminum Industry, offers three reasons for creating joint ventures to avoid market failure. First, because the markets for intermediate products are subject to failure, joint ventures are useful for attaining economies of scale and shared output. Second, high barriers to entry and exit plus incompleteness of capital markets may mean average cost of capital for a large product is lower with a joint venture. Both of these reasons for creating joint ventures are more common to the resource sector (or aluminum industry in particular) because of the different stages of production with aluminum, and inherent risk due to the large scale of investment.

The third reason for creating joint ventures is because technical know-how and management expertise (intangible assets) are not easily exchanged via markets to the satisfaction of both suppliers and buyers. Stuckey feels the need for "nation-specific" knowledge typically arises when an established firm decides to invest in a country where they have had limited previous experience. "Local firms or groups possess specialized information on the country's economy, politics, customs, and so on, information that is costly and time consuming for the multinational enterprise to gather. This information is more accessible and is synthesized and used more efficiently within the relatively co-operative atmosphere of a joint venture."(36) In summary, Stuckey feels the joint venture firm can be more efficient because it allows some of the economically important relationships between otherwise separate partners to be internalized by one organization (37).

7. Conclusions

The theory of the MNE has been extended here and by other researchers to include an expanded role for joint-equity ventures. The expanded theory of the MNE has emphasized that in markets requiring high levels of information and adaptation (for most MNEs these are usually LDC markets), the MNE's firm-specific advantage in certain types of knowledge is insufficient. The MNE can attempt to exploit its firm-specific advantage by itself, but it lacks knowledge of the local economy, politics, and customs that seems to improve prospects for success. This local knowledge is important in all markets; the impact of the MNE not possessing this knowledge, however, is magnified in LDCs. In the less technology-intensive firms in the LDC sample, the costs of not having the MNE's knowledge is decreased. Hence, a new equation taking into account the relative merits of MNE and local knowledge would perhaps result in a different outcome than exists in developed markets.

Forming a joint venture is not without its costs. Certainly the coordinating of management from separate firms requires an increased effort. However, as the empirical evidence tended to confirm, joint internalization did seem to be more effective than solo internalization for the MNE in LDC markets. Empirical evidence is thus provided and the applicable conditions are specified, which tends to support Dunning's (38) rationale for the appropriateness of joint ventures in place of wholly owned subsidiaries.

Further research is required to determine if one element of local knowledge -- economics, political, or cultural -- is more significant than others to MNEs. Also, because only an LDC-based sample of joint ventures was used, further research is required to determine if the theory is applicable in joint ventures between partners from two developed countries with significantly different cultures. While these and other questions (see

Table XI-1) have yet to be answered, it bears noting that they have been raised as a result of the expanded role of joint ventures in the theory of the multinational enterprise.

TABLE XI-1

Recent Joint Venture Studies Using Internalization to Explain Foreign Direct Investment: By Sector and Investor Group

MNE HOME COUNTRY

INDUSTRY		Planned Economy	Developed Country	Third World
	Primary (Mining) Sector	--	Stuckey (1983) (in LDCs and developed countries with various partners)	--
	Secondary (Manufacturing) Sector	--	Beamish (1984) (in LDCs with private local partners)	Wells (1983) (in LDCs with private local partners)
	Tertiary (Service) Sector	--	--	--

Note: some overlap exists between cells.

CHAPTER ELEVEN NOTES

(1) Stefan H. Robock and Kenneth Simmonds, International Business and Multinational Enterprises (3rd ed.; Homewood, Illinois: Richard D. Irwin, 1983).

(2) Louis T. Wells, Jr., "Effects of Policies Encouraging Foreign Joint Ventures in Developing Countries," in E. Ayal (ed.), Micro Aspects of Development (New York: Praeger, 1973), p. 177.

(3) Peter Buckley and Mark Casson, The Future of the Multinational Enterprise (Basingstoke and London: Macmillan, 1976).

(4) Mark Casson, Alternatives to the Multinational Enterprise (London: Macmillan, 1979).

(5) Alan M. Rugman, International Diversification and the Multinational Enterprise (Lexington, Mass.: D.C. Heath, 1979).

(6) Ronald H. Coase, "The Nature of the Firm", Economica (1937); 386-405. Reprinted in Readings in Price Theory, Edited by G. Stigler and K. Boulding (Homewood, Illinois: Irwin, 1952).

(7) Oliver E. Williamson, Markets and Hierarchies: Analysis and Antitrust Implications: A Study in the Economics of Internal Organizations (New York: Free Press, Macmillan, 1975).

(8) Ibid.

(9) Louis T. Wells, Jr., Third World Multinationals: The Rise of Foreign Investment from Developing Countries (Cambridge, Mass.: MIT Press, 1983), Chapter 7.

(10) Neil Hood and Stephen Young, The Economics of Multinational Enterprise (New York: Longman, 1979), Chapter 2.

(11) J. Peter Killing, Strategies for Joint Venture Success (New York: Praeger, 1983), Chapter 6.

(12) David J. Teece, "The Multinational Enterprise: Market Failure and Market Power Considerations", Sloan Management Review (Spring, 1981), p. 3-17.

(13) Alan M. Rugman, "The Comparative Performance of U.S. and European Multinational Enterprises, 1970-79", Management International Review 23 (1983), p. 4-14.

(14) Coase, op.cit.

(15) John H. Dunning, International Production and the Multinational Enterprise (London: George Allen and Unwin, 1981).

(16) Stephen H. Hymer, The International Operations of National Firms: A Study of Direct Foreign Investment (Cambridge, Mass.: M.I.T. Press, 1976).

(17) Buckley and Casson, op.cit.

(18) Casson, op.cit.

(19) Rugman, op.cit., 1979.

(20) Dunning, op.cit., 1981.

(21) Rugman, op.cit., 1983.

(22) Alan M. Rugman, "Internalization as a General Theory of Foreign Direct Investment: A Reappraisal of the Literature" in Dhawan, Etemad and Wright (eds), International Business: A Canadian Perspective (Don Mills, Ontario: Addison-Wesley, 1981), p. 285.

(23) Williamson, op.cit.

(24) A.L. Calvet, "A Synthesis of Foreign Direct Investment Theories and Theories of the Multinational Firm", Journal of International Business Studies (Spring/Summer, 1981), p. 43-59.

(25) Teece, op.cit.

(26) Dunning, op.cit., 1981.

(27) Stephen Hymer, "Comment by Stephen Hymer (on 'Effects of Policies Encouraging Foreign Joint Ventures in Developing Countries' by Wells) in E. Ayal (ed.), Micro Aspects of Development (New York: Praeger, 1973), p. 180.

(28) John H. Dunning, American Investment in British Manufacturing Industry (London: George Allen and Unwin, 1958).

(29) John Stopford and Louis T. Wells Jr., Managing the Multinational Enterprise (New York: Basic Books, 1972).

(30) Richard E. Caves, Multinational Enterprise and Economic Analysis (Cambridge, Mass.: Cambridge University Press, 1982).

(31) J. Saham, British Industrial Investment in Malaysia, 1963-1971 (Kuala Lumpur: Oxford University Press, 1980), p. 150-51.

(32) Killing, op.cit.

(33) E.J. Kolde, The Multinational Company (Toronto: Lexington Books, 1974).

(34) Wells, Jr. op.cit., 1983.

(35) John A. Stuckey, <u>Vertical Integration and Joint Ventures in the Aluminum Industry</u> (Cambridge, Mass.: Harvard University Press, 1983).

(36) <u>Ibid</u>., p. 167.

(37) <u>Ibid</u>., p. 152.

(38) Dunning, <u>op</u>.<u>cit</u>., 1981.

XII. SUMMARY AND CONCLUSIONS

This research makes a number of contributions to a varied audience -- theoreticians, researchers, multinational enterprise managers, developing-country partners, general managers, and local governments. A review of these contributions helps to clarify opportunities for further research.

1. Contributions of the Research

For Theory

The theory of the multinational enterprise was extended to include an expanded role for joint-equity ventures. The theory of the MNE has until now emphasized the wholly owned subsidiary form of foreign direct investment. Joint ventures have been considered risky for the MNE because they jeopardize the MNE's monopolist advantage in knowledge. A theoretical role for joint ventures had been previously noted by Dunning,(1) but empirical evidence had remained limited. This empirical study demonstrates that under certain conditions joint ventures have greater long-term viability for the MNE than do wholly owned subsidiaries. As well, the research shows how the use of joint ventures can be consistent with the internalization approach to the theory of the MNE.

For Researchers

The major contribution for researchers was relating partner need and commitment to performance. The existing list of partner needs was expanded, split into those that were of a general versus specific nature, and used in attaining MNEs', general managers' and local partners' perspectives on the subject.

The concept of commitment was adapted to the international business area from the organization behaviour and information systems areas. Commitment was operationalized so that managers found it a meaningful way in which to express their attitudes toward joint ventures. A number of the measures correlated closely with performance.

The sample of joint ventures provided further data on, and refinement of, variables that other researchers had examined, including staffing, ownership and control. For example, Tomlinson (2) had noted that it would be useful to examine his conclusion about control in at least one other developing country because his sample was of joint ventures between only British and Indian/Pakistani firms. Unlike most other research, however, this research examined these variables specifically in less developed countries and related the findings to performance.

The emphasis on less developed countries was important. Control, for example, was less important in explaining joint-venture performance in this LDC sample than in developed-country research. The dual explanation for this was that (a) LDC joint ventures were considered to be a different population of joint ventures and (b) problems associated with the operation of joint ventures were perceived to occur at earlier stages in the joint-venture process (e.g., during the venture's formation, and during partner selection, rather than during on-going management) in LDCs. Little of the previous research had focussed on the entire process. Instead, previous research tended to focus on issues of control that arose primarily at the on-going management stage.

For Multinational Managers

The major contributions of the research for multinational managers is that they now have an empirically derived model to guide them in their decision regarding the formation of joint ventures in developing countries. Even if they have never formed a joint venture before, the model provides sufficient detail that they should be able to determine whether they are suited to forming a venture. By examining their own attitudes regarding; (a) 16 potential partner contributions at three points in time, (b) commitment as measured against 16 firm characteristics, (c) eight measures of decision-making control, and (d) organization design considerations such as staffing, firms can now more accurately assess their prospects for joint-venture success. The management guideline outlines the specific items most strongly related to performance.

Another implication of the research for MNE managers was in determining what were the most important contributions of local partners. The research suggests local partners should be given greater roles in the operation of developing-country ventures - in terms of management responsibility and the sharing of decision making - if the ventures are to be successful. This held true whether performance was was measured using need, commitment, ownership, control, or staffing. All of these measures lent support to the view that multinationals should take an adaptive stance toward their developing-country joint ventures.

For Local Partners

Poor joint-venture performance affects the local partner as much or more than it does the foreign partner. The same model derived for the multinational managers is useful for the local partners in that it can be used to focus attention on the attitudes and characteristics of the potential foreign partner. Given the relationships that were identified between performance and the independent variables, partners can now be screened to find those most likely to make good associates. For example, the guideline can be used by the local firm to determine whether the potential foreign partner is looking for a local firm able to make specific contributions, or simply for a local partner.

For General Managers

It is often the joint venture general manager who has the greatest degree of interaction with both partners. A general manager who understands the relationship between performance and the need and commitment items as they relate to his venture can apply this knowledge to improve the prospects for success. For example, he may be more inclined to have the local partner involved in discussions even if the management agreement says he does not have to be included, if he knows this is more likely to lead to success.

In addition, the research identified several areas where there were differences between foreign parent and general manager. The areas identified can serve as a starting point for improving levels of communication between the groups.

For Local Governments

The two most common ways in which local governments can have an impact on joint-venture performance are through equity involvement in ventures and by regulations governing levels of foreign ownership. While the research focussed on joint ventures between MNEs and private, local firms, on a number of occasions the MNE had local government partners. Given the poor performance rates associated with ventures between MNEs and government partners, the research suggests that on economic grounds, local governments should avoid taking equity positions in these enterprises. While the intent of the research was not to prescribe public policies for local governments, one can speculate that a more effective form of involvement for governments would be to provide assistance to local private firms in becoming joint-venture partners rather than the governments' assuming that role. This might be sufficient to satisfy the underlying political pressures on local governments.

The research found that those multinational executives involved in the high-performing ventures were willing to form joint ventures even when there were no government regulations to the effect. In contrast, the research also noted that the only perceived need of the multinational executives from the poorly performing ventures for a local partner was because the local partner could satisfy expected/existing government requirements regarding ownership. This suggests that those multinationals opposed to the use of joint ventures should avoid bowing to local government pressure to form them since this is likely to result in poor performance. This also suggests that legislating local ownership is not effective in improving the likelihood of viable enterprises containing local equity being established: the MNEs most likely to make viable partners were willing to form joint ventures prior to governmental requirements.

2. Suggestions for Further Research

There are a number of potential explanations for the success and failure of joint ventures in developing countries which require further study.

Core Skills and Trust

A major component of what Wrigley (3) has called "core skills," is the ability of managers to work together. In a joint venture context, recognizing a local partner has a contribution to make is not enough by itself to ensure joint-venture success. Time must also be reserved to develop the "habit of working together." This is certainly consistent with the experience of one executive who noted that "as long as we maintained our policy of parachuting expatriate managers into the problem areas, we could never get guys to run the operations efficiently." Another added that "with changes in executives, certain things were no longer taken for granted."

One executive viewed the habit of working together more as a "philosophical communion" with the partner. He emphasized the importance of attaining harmony with, and respect for, the partner through joint decision-making. He added that "consensus is more important than control. Control is not the issue in LDCs. It is the jointness of decision-making which is important." Consensus should be considered more important than control because a local partner can possibly contribute a great deal to the success of the venture. With so much at stake, the emphasis should be on ensuring jointness, rather than control, of decision making. Another executive added, "Emphasizing control is like competing with your partner. We would rather work with our partner and compete in the market."

The habit of working together takes time and in many cases requires the development of trust between partners, a point also noted by Schaan.(4)

Numerous executives noted the importance of developing a trust with the other partner. Development of such a trust is impeded, as one executive noted, by short-term staffing policies of many multinational firms. (This problem was circumvented in one of the more successful joint ventures by staffing entirely with MNE-supplied local nationals who were agreeable to spending an extended period of time in the local country. Another executive noted that he saw no solution to the problem of short-term staffing. He feels that local partners will simply have to get accustomed to dealing with lower-level people from the multinational's organization, since it is often not feasible for the people who set up the venture to always remain closely involved.)

Purposes for which Joint Ventures are Established and Maintained

Within several of the ventures there was some degree of incongruity between the partners regarding purposes for which joint ventures were established. As the following example illustrates, when partners have significantly different underlying purposes for establishing joint venture, problems may result.

In this example, the MNE-supplied general manager (a national of the local country) seemed to be motivated to maintain the joint venture for reasons beyond normal financial, lifestyle, and career concerns. The general manager was keenly interested in the impact of his company on the national development of his home country and had worked hard to establish the venture. While able to rationalize the earning of a limited profit in the local country by the joint venture, according to the local partner, the general manager did not seem to be maximizing the company's potential dividend issuance rate -- repatriating only one-third of the level permitted.

In fact, even the MNE parent had disagreed with the general manager over the dividend rate. The general manager seemed to view working for the foreign parent as a way in which he could influence positively the development of his country.

During interviews regarding the establishment of more than 70 joint ventures (including several in developed countries), numerous multinational executives admitted that the decision to enter or remain in a particular market was often not a straightforward business decision. In fact, there were so many instances where executive decisions seemed to be based to some extent on personal predilections that it was impossible not to speculate on the impact of this on the survival of the businesses.

By far the majority of businesses, at least overtly, seemed to have been established and maintained on the basis of an impartial, economic decision. Yet, in at least 10 of 66 LDC cases, executives acknowledged that the decision to enter or remain in the market was influenced by personal concerns. For example, several executives (usually jokingly) noted that their joint ventures in the Caribbean received a disproportionate amount of senior management time; it afforded executives an opportunity to combine a business trip with a vacation. These managers added that they would not like to lose their annual trip to the Caribbean. The implication here is that marginal ventures may be more likely to survive if they are located in a locale that the foreign executive finds appealing. Inadvertently, this may result in the foreign executives devoting more time to the venture as well.

Aharoni,(5) in earlier research on the foreign-investment decision process, noted the importance of not ignoring the social system in which the process is embedded. Just as the decision to invest is not a pure economic one, so too the decision to divest must be considered in a larger context. In a joint venture in Lagos, Nigeria, the manager freely acknowledged that he hated going to Lagos because of the urban violence, bribery, and general lack of personal comfort. Consequently, when a reasonable opportunity presented itself to close down the venture which his predecessor had established, he took it. Yet, from a business standpoint, Nigeria represented a significantly larger potential market than the entire Caribbean.

There are other examples. In one case, as a result of pressure from several members of the company's board of directors to "do something for Israel," a new subsidiary was established there. This business was short-lived since it never met the parent-company requirements regarding locale and market size. In the final example, one multinational executive noted that one of their joint ventures was so small that it could never be established today, and in fact was "not really worth the trouble". However, because it was the first foreign subsidiary set up by the man who was now company chairman, who had an admitted soft spot for it, the decision had been made to continue operating it.

Interactive Effects

The interactive effect of need and commitment, from both a substantive and methodological perspective, would be a fruitful area for further study given the relationship identified at the end of Chapter VIII. In the same way that the relative importance of sixteen different partner contributions were assessed across a five-point scale, decision-making control could be examined. This could be done in conjunction with one of the other items and could be integrated with some of Schaan's (6) recent work. Changes over time in both control and commitment could also be examined. Also, commitment could be more completely assessed from the perspective of local partners.

Other Organization Forms and Sectors

There were limited data available on the relative performance in less-developed countries of joint ventures versus wholly owned subsidiaries. Based on this research and its fit with the internalization approach to the theory of multinational enterprise, we can speculate that joint ventures are more likely to lead to success if importance is attached to local partners' contributions. Nonetheless, further research is required in support of this view. Also, the role of joint-ventures could be examined in the context of other approaches to foreign direct investment besides internalization.

Given an increased trend toward service-sector businesses, joint-venture performance in this area could also be examined. Similarly, smaller subsections not emphasized in this study were joint ventures in the resource/mining areas or those involving government partners.

An underlying premise of all these suggestions is that the joint-venture should have long-term viability. Under certain conditions, joint ventures of a predetermined longevity are appropriate. The determination of these conditions, and defining the way in which such a venture would be structured, would be a useful area of study.

Higher Technology

The importance of need and commitment did not seem to be greatly affected by level of technology. The 12 core ventures - whose activities formed much of the basis for the management guideline - were in less technology-intensive industries. However, a number of the 54 other joint ventures in the sample produced more technologically advanced products. A firm entering an LDC with joint venture production of a high-technology product undoubtedly has a low risk of the local partner "stealing" the technology, and hence no longer being needed by the local partner. However, level of technology may bear little necessary relationship to the MNE's need for knowledge of the local economy, politics, and culture. Whether the level of technology is high or low, a partner may still be required who can contribute local market knowledge.

The advantage of bringing a higher technology product to the venture is that the MNE may be able to argue for a greater technical service fee. Future research could examine whether the MNE should avoid using its high-technology contribution to argue for greater managerial control (with the exception of protecting its technology) because dominant managerial control may not be in its best interest in LDCs. Technology or not, the MNE may still require the local partners contribution of local market knowledge.

In the less technology-intensive ventures, the greater threat to the stability of the venture may be from the local partner; he may at some point simply feel capable of 'going it alone'. To maintain the local partner's need for the MNE, the MNE must be able to contribute on-going technological development, special equipment, or access to export markets. If the MNE's potential contribution in these areas is difficult, or if it is limited to trademark control, use of licensing rather than a joint venture may be appropriate.

Other Countries

It would be useful to repeat the same study in other LDCs to increase the level of confidence in the findings. The research may be applicable to larger LDCs such as Mexico, Brazil, India and Nigeria. Joint ventures located in these and other LDCs (27 in total) formed the sample which provided the original focus on need and commitment. A larger sample size would improve the prospects of finding more statistically significant results in areas where trends were indicated or suspected. Further statistical analysis, especially if the sample size were increased, could be conducted.

Although most of the core ventures were located in smaller markets with potentially lower levels of competition, competition from imports or other local manufacturing existed in all cases. Although none of the joint ventures in the sample had a monopoly position, the findings might still be useful to any firm that did. The hypothesis requiring further study is that even when there is limited competition, without the local partner's contributions of knowledge of the local economy, politics and culture and managers, the joint venture would not perform as well.

Another area for study would be to examine the role of need and commitment on the performance of joint ventures in developed countries (i.e., USA, Canada, UK) rather than in LDCs. Wright noted that a major reason for Canadian firms forming joint ventures in Japan was that "the cultural and behavioural aspects of manufacturing and marketing in Japan are seen as much too complex for the foreigner to try to handle himself through a wholly owned subsidiary."(7) This is similar to the emphasis placed in the developing country research on the need for a local partner's knowledge of the local economy, politics, and culture. It would be useful to repeat the study in Japan in an effort to determine if one part of the rather inclusive variable -- knowledge of the local economy, politics and culture -- was more relevant than others. It is possible that cultural differences more than economic differences suggest the use of local partners.

CHAPTER TWELVE NOTES

(1) John H. Dunning, International Production and the Multinational Enterprise (London: George Allen and Unwin, 1981).

(2) J.W.C. Tomlinson, The Joint Venture Process in International Business: India and Pakistan (Cambridge, Mass.: The M.I.T. Press, 1970).

(3) Leonard Wrigley, "Divisional Autonomy and Diversification" (Unpublished DBA Dissertation, Harvard Business School, 1970).

(4) Jean Louis Schaan, "Parent Control and Joint Venture Success: The Case of Mexico" (Unpublished Doctoral Dissertation; University of Western Ontario, 1983).

(5) Yair Aharoni, The Foreign Investment Decision Process (Boston: Harvard University, 1966).

(6) Schaan, op.cit.

(7) Richard W. Wright, "Canadian Joint Ventures in Japan" in International Business: A Canadian Perspective, edited by K.C. Dhawan, Hamid Etemad, and Richard W. Wright. (Don Mills, Ontario: Addison-Wesley, 1981).

Appendix 1

Joint Venture Questionnaire

The attached questionnaire is part of a large scale project studying ways of improving the performance of joint business ventures. The questions have been designed so that you can answer them quickly. If however, you feel a question requires further explanation, please feel free to add appropriate comments on the reverse side. All information which you supply will be considered absolutely confidential. Thank you.

Name of Joint Venture ______________________________

Your Name and Position ______________________________

Your Venture was Established __________

Names and % holdings of partners with more than 5% of the equity
(a) ______________________________
(b) ______________________________
(c) ______________________________

Have the % holdings changed since the venture was established?
No ____ Yes (please specify) ____________________

Major products produced by the venture.	Local Market Share
(a) ____________________	________ %
(b) ____________________	________ %
(c) ____________________	________ %

What was the reason for establishing the venture? ____________________
____

Whose idea was it to establish the venture? ____________________
____

What percentage of local production (if any) is exported? ______ %

What are local annual sales? Under US$1.0 million ________
$1.0-5.0 million ________ $5.0-10.0 million ________
Over $10.0 million ________

How many other joint ventures are you involved in? ____ Where?
____

Have you been involved with any joint ventures which no longer exist? (Please specify) ____________________
____

Are the people who set up the venture still involved in any capacity with it? (Please specify) ____________________
____

(1) (a) At the time of entry into the joint venture, did you need a partner with specific qualifications?

(b) Were other partners given serious consideration?

(2) (a) What were the major contributions (in order of importance) of your partner to the venture at the time of entry into the joint venture.

(b) At the present time, what are the major contributions (in order of importance) of your partner to the joint venture?

(c) Do you have a long term need for your partner? (Please specify)

(d) Does your partner have a long term need for you? (Please specify)

(3) At the TIME OF ENTRY into the joint venture how important was your joint venture partner's contribution of the following items?

	UNIMP-ORTANT	SOME-WHAT UNIMP-ORTANT	AVERAGE IMPOR-TANCE	SOME-WHAT IMPOR-TANT	IMPOR-TANT
Faster entry into local market	0	1	2	3	4
Local political advantages	0	1	2	3	4
Inexpensive labour	0	1	2	3	4
Raw material supply	0	1	2	3	4
Knowledge of current business practices	0	1	2	3	4
Better access to markets than a wholly-owned subsidiary would provide	0	1	2	3	4
Satisfy expected government requirements for local ownership/ avoid political intervention	0	1	2	3	4
General managers	0	1	2	3	4
Capital	0	1	2	3	4
General knowledge of the local economy, politics and customs	0	1	2	3	4
Meet existing government requirements for local ownership or import substitution	0	1	2	3	4
Technology or equipment	0	1	2	3	4
Functional managers (marketing, production, financial, etc...)	0	1	2	3	4
Better access to the local market for goods produced outside it	0	1	2	3	4
Better export opportunities	0	1	2	3	4
General knowledge of the foreign economy, politics, and customs	0	1	2	3	4
~~Other items? (please specify)~~	~~0~~	~~1~~	~~2~~	~~3~~	~~4~~

(4) At THE PRESENT TIME how important are your joint venture partner's contributions of the following items?

	UNIMPORTANT	SOMEWHAT UNIMPORTANT	AVERAGE IMPORTANCE	SOMEWHAT IMPORTANT	IMPORTANT
Faster entry into local market	0	1	2	3	4
Local political advantages	0	1	2	3	4
Inexpensive labour	0	1	2	3	4
Raw material supply	0	1	2	3	4
Knowledge of current business practices	0	1	2	3	4
Better access to markets than a wholly-owned subsidiary would provide	0	1	2	3	4
Satisfy expected government requirements for local ownership/ avoid political intervention	0	1	2	3	4
General managers	0	1	2	3	4
Capital	0	1	2	3	4
General knowledge of the local economy, politics and customs	0	1	2	3	4
Meet existing government requirements for local ownership or import substitution	0	1	2	3	4
Technology or equipment	0	1	2	3	4
Functional managers (marketing, production, financial, etc...)	0	1	2	3	4
Better access to the local market for goods produced outside it	0	1	2	3	4
Better export opportunities	0	1	2	3	4
General knowledge of the foreign economy, politics, and customs	0	1	2	3	4
Other items? (please specify)	0	1	2	3	4

(5) THREE YEARS FROM NOW, how important do you expect your joint venture partner's contributions of the following to be?

	UNIMPORTANT	SOMEWHAT UNIMPORTANT	AVERAGE IMPORTANCE	SOMEWHAT IMPORTANT	IMPORTANT
Faster entry into local market	0	1	2	3	4
Local political advantages	0	1	2	3	4
Inexpensive labour	0	1	2	3	4
Raw material supply	0	1	2	3	4
Knowledge of current business practices	0	1	2	3	4
Better access to markets than a wholly-owned subsidiary would provide	0	1	2	3	4
Satisfy expected government requirements for local ownership/avoid political intervention	0	1	2	3	4
General managers	0	1	2	3	4
Capital	0	1	2	3	4
General knowledge of the local economy, politics and customs	0	1	2	3	4
Meet existing government requirements for local ownership or import substitution	0	1	2	3	4
Technology or equipment	0	1	2	3	4
Functional managers (marketing, production, financial, etc...)	0	1	2	3	4
Better access to the local market for goods produced outside it	0	1	2	3	4
Better export opportunities	0	1	2	3	4
General knowledge of the foreign economy, politics, and customs	0	1	2	3	4
Other items? (please specify)	0	1	2	3	4

(6) Please evaluate from your perspective each of the following statements in terms of how characteristic/uncharacteristic they are in describing either the joint venture or the parent company's attitude toward the joint venture.

	UNCHARACTERISTIC	SOMEWHAT UNCHARACTERISTIC	AVERAGE	SOMEWHAT CHARACTERISTIC	CHARACTERISTIC
The parent company places a strong emphasis on foreign investment	0	1	2	3	4
The parent company favours investment in the developing countries	0	1	2	3	4
The parent company is willing to form a JV even when there are no government regulations requiring it to do so	0	1	2	3	4
The parent company is quite willing to take a minority equity position in a joint venture	0	1	2	3	4
The parent company spends a long time weighing the costs and benefits of using a joint venture over other organization forms	0	1	2	3	4
The parent company has contingency plans for providing its joint ventures with increased levels of assistance if necessary	0	1	2	3	4
We are more interested in making the venture work than in satisfying parent company concerns	0	1	2	3	4
Management from the parent company is quite willing to regularly visit and offer assistance to the joint venture	0	1	2	3	4

Question 6 (continued)

	UNCHAR-ACTER-ISTIC	SOME-WHAT UNCHAR-ACTER-ISTIC	AVERAGE	SOME-WHAT CHAR-ACTER-ISTIC	CHAR-ACTER-ISTIC
We are willing to seriously consider changing our current working procedures and reporting requirements to accommodate our partner	0	1	2	3	4
We are willing to commit resources (people, time and money) to the venture even when it should technically acquire these things on its own	0	1	2	3	4
We try to ensure that through regular meetings each partner knows what to expect from the joint venture	0	1	2	3	4
We try to include our partner even in those discussions which the management agreement says we can handle ourselves	0	1	2	3	4
When special skills are required by the JV, we try to first find them in the parent organization	0	1	2	3	4
The parent company is quite willing to adapt it's products to the needs of the local market	0	1	2	3	4
We spend a great deal of time beyond normal hours with our partner working on venture business	0	1	2	3	4
We have made a strong effort to increase the number of nationals employed in the venture	0	1	2	3	4

(7) The following questions relate to decision making control in the joint venture. Please check off the appropriate box(es).

DECISIONS REGARDING:	MADE BY LOCAL PARENT ALONE	MADE BY FOREIGN PARENT ALONE	MADE BY JOINT VENTURE EXECUTIVES ALONE	MADE BY JOINT VENTURE EXECUTIVES WITH INPUT FROM LOCAL PARENT*	MADE BY JOINT VENTURE EXECUTIVES WITH INPUT FROM FOREIGN PARENT*	MADE JOINTLY BY PARENTS
Product pricing	( )	( )	( )	( )	( )	( )
Product design	( )	( )	( )	( )	( )	( )
Production scheduling	( )	( )	( )	( )	( )	( )
Production process	( )	( )	( )	( )	( )	( )
Quality standards	( )	( )	( )	( )	( )	( )
Replacing a functional manager	( )	( )	( )	( )	( )	( )
Annual budget (a) Sales targets	( )	( )	( )	( )	( )	( )
(b) Cost targets	( )	( )	( )	( )	( )	( )
(c) Capital expenditures	( )	( )	( )	( )	( )	( )
Day-to-day management	( )	( )	( )	( )	( )	( )
Exports	( )	( )	( )	( )	( )	( )
Sourcing of raw materials	( )	( )	( )	( )	( )	( )

* If the decision is made by the joint venture executives with input from both parents, place a checkmark in each of these two columns.

(8) Performance

(A) What things do you consider when assessing the performance of the venture?

(B) Are you satisfied with the performance of the venture? ______

(C) Is your partner satisfied? ______

(D) Has the venture satisfied the purpose for which it was established?

(E) Have you presently (or in the past) had any area of major disagreement with your partner? (Please specify) ______

(F) How has the local venture performed relative to other ventures you are involved in? ______

(G) How often is the venture's management agreement referred to? ______

(H) Please check off the sources of earnings for you and your partner from the venture.

	You	Your Partner
Dividends		
Royalties		
Technical service fees		
Management fees		
Distribution agreements		
Raw material sales to the venture		
Finished goods sold through the venture		
Other (Please specify)		

(I) What is your total annual return on investment? ______ %

(J) What is your partner's estimated total annual return on investment? ______ %

(K) What is your overall assessment of the future of the joint venture? ______

End of questionnaire. All information will remain confidential. Thank you again.

APPENDIX 2

Statistical Test Used

In this section, the choice of non-parametric statistical tests used in the research is explained and an actual example is presented. The following description of the test chosen and its function and rationale is from Siegel's authoritative text on non-parametric statistics (Non-Parametric Statistics for the Behavioral Sciences).

> "In testing hypotheses about whether a sample was drawn from a population with a specified distribution, the investigator may use one of three goodness-of-fit tests: the binomial test, the χ^2 one-sample test, or the Kolmogorov-Smirnov one-sample test. ...The Kolmogorov-Smirnov test treats individual observations separately and thus does not lose information because of grouping as the χ^2 text sometimes must. Moreover, for very small samples the χ^2 test is not applicable at all, but the Kolmogorov-Smirnov test is. ...It would seem that in all cases where it is applicable the Kolmogorov-Smirnov test is the most powerful goodness-of-fit test of those presented.
>
> Kolmogorov-Smirnov determines whether the scores in the sample can reasonably be thought to have come from a population having the theoretical distribution. ...Kolmogorov-Smirnov should be used when one can assume that the variable under consideration has a continuous distribution." (p. 59)

<u>EXAMPLE</u>: One of the questions asked in the need questionnaire was: "At the present time, how important is your joint venture partner's contribution of Knowledge of Current Local Business Practices?"

Respondents were asked to rate this question on a five point scale from unimportant to important.

i. Null Hypothesis. H_0: There is no difference in the expected number of responses for each of the five choices, and any observed differences are merely chance variations to be expected in a random sample from the population where $f_1 = f_2 = \ldots = f_5$. H_1: The frequencies $f_1, f_2, \ldots, f_5$ are not all equal.

ii. Statistical Test. The Kolmogorov-Smirnov one-sample test is chosen because the researcher wishes to compare an observed distribution of responses on an ordinal scale with a theoretical distribution.

iii. Significance Level. Let $\alpha = .05$. N = number of foreign parent company responses in the study = 12.

iv. Various critical values from the sampling distribution can be found in any Table of Critical Values for Kolmogorov-Smirnov One-Sample Test, together with their associated probabilities of occurrence under H_0. The critical value formula for the maximum deviation (D), is $/F_0(X) - S_N(X)/$, where $F_0(X)$ is a completely specified cumulative frequency distribution function and $S_N(X)$ is the observed cumulative frequency distribution of a random sample of N observations.

v. Rejection Region. The region of rejection consists of all values of D (computed using the formula D = maximum$/F_0(X) - S_N(X)/$) which are so large that the probability associated with their occurrence under H_0 is equal to or less than $\alpha = .05$.

vi. Decision. In this research, one respondent felt the partner's contribution was somewhat unimportant, three felt it was of average importance, one felt it was somewhat important and seven felt it was important. Table 1 shows these data and casts them in the form appropriate for applying the Kolmogorov-Smirnov one-sample test.

TABLE 1

Perceived Importance of the Local Partner's Contribution of Local Market Knowledge for 12 Foreign Partners

	Rank of Contribution (0 is least important)				
	0	1	2	3	4
f = number of respondents choosing that level	0	1	3	1	7
$F_0(X)$ = theoretical cumulative distribution of choices under H_0	$\frac{12}{60}$	$\frac{24}{60}$	$\frac{36}{60}$	$\frac{48}{60}$	$\frac{60}{60}$
$S_{12}(X)$ = cumulative distribution of observed choices	$\frac{0}{60}$	$\frac{5}{60}$	$\frac{20}{60}$	$\frac{25}{60}$	$\frac{60}{60}$
$/F_0(x) - S_{12}(X)/$	$\frac{12}{60}$	$\frac{19}{60}$	$\frac{16}{60}$	$\frac{23}{60}$	0

Inspection of the bottom row of the table reveals a maximum deviation of $\frac{23}{60}$ or .383. Critical Value Tables show that for N = 12, $D \geq .383$ has an associated probability under H_0 of $p < .05$. Inasmuch as the p associated with the observed value of D is smaller than $\alpha = .05$, the decision is to reject H_0 in favour of H_1. We conclude that the foreign partners perceive these partners to be making an important contribution in terms of local market knowledge.

A second application of Kolmogorov-Smirnov using the same data is to split the sample into the high and low performing ventures. In this research, a high performing venture is considered to be one where both partners assess the performance as satisfactory and the return on investment for each is 20% or higher. Of the 12 ventures, seven were considered satisfactory performers and the balance unsatisfactory performers. A major advantage of the Kolmogorov-Smirnov one-sample test is that small samples can be used. Tables 2 and 3 illustrate this adaptation and point out an important difference between the two populations which was not evident when the data was aggregated. Specifically, with the high performing ventures, the maximum deviation was $\frac{21}{35}$ or .600. Critical Value Tables show that for N = 7, $D \geq .600$ has an associated probability under H_0 of $p < .01$. We conclude, with even greater confidence than we could before, that the foreign partners in the high performing ventures perceive these partners to be making an important contribution in terms of local market knowledge. In the low performing ventures, the maximum deviation was only .200. Critical Value Tables show that the null hypothesis cannot be rejected, that is, responses here appear to have occurred randomly. Thus this analysis has helped identify an important relationship between a partner contribution and joint venture performance.

TABLE 2

Perceived Importance of the Local Partner's Contribution of Local Market Knowledge for 7 Foreign Partners in High Performing Ventures

	Rank of Contribution (0 is least important)				
	0	1	2	3	4
F = number of respondents choosing that level	0	0	1	0	6
$F_0(X)$ = theoretical cumulative distribution of choices under H_0	$\frac{7}{35}$	$\frac{14}{35}$	$\frac{21}{35}$	$\frac{28}{35}$	$\frac{35}{35}$
$S_7(X)$ = cumulative distribution of observed choices	$\frac{0}{35}$	$\frac{0}{35}$	$\frac{7}{35}$	$\frac{7}{35}$	$\frac{35}{35}$
$\lvert F_0(X) - S_7(X) \rvert$	$\frac{7}{35}$	$\frac{14}{35}$	$\frac{14}{35}$	$\frac{21}{35}$	0

TABLE 3

Perceived Importance of the Local Partner's
Contribution of Local Market Knowledge for
5 Foreign Partners in Low Performing Ventures

	Rank of Contribution (0 is least important) 0	1	2	3	4
f = number of respondents choosing that level	0	1	2	1	1
$F_0(X)$ = theoretical cumulative distribution of choices under H_0	$\frac{1}{5}$	$\frac{2}{5}$	$\frac{3}{5}$	$\frac{4}{5}$	$\frac{5}{5}$
$S_5(X)$ = cumulative distribution of observed choices	$\frac{0}{5}$	$\frac{1}{5}$	$\frac{3}{5}$	$\frac{4}{5}$	$\frac{5}{5}$
$/F_0(X) - S_5(X)/$	$\frac{1}{5}$	$\frac{1}{5}$	0	0	0

APPENDIX 3

The Supplementary Questions Used to Assess the Four Characteristics of Commitment for Each Statement in the Commitment Questionnaire

1 - The parent company places a strong emphasis on foreign investment.

Revocability (R) - What percent of sales is outside the home country? In how many foreign countries are offices located?

Volition (V) - Did the company go international because they lost their local market share or because they had outgrown the local market?

Explicitness/Publicity (E/P) - Is there an emphasis on exporting/licensing or local manufacturing?

Effort (E) - How many recently established international operations are there?

2 - The parent company favours investment in the developing countries.

R - What is the percent of total company investment in LDCs?

V - If all else is equal, is the company indifferent to investing in developed versus developing countries?

E/P - What is the percent of total company investment in LDCs?

E - How many of the country studies recently commissioned by the company were related to LDCs?

3 - The parent company is willing to form a JV even when there are no government regulations requiring it to.

R - What is the number of JVs in LDCs which were voluntarily formed?

V - Where there were no regulations, were there any more subtle reasons for forming a JV?

E/P - Are there any public statements in the annual reports about the company attitude toward JVs?

E - Did forming a JV require more or less effort then forming a wholly-owned subsidiary?

4 - The parent company is quite willing to take a minority equity position in a joint venture.

R - How many minority versus majority joint ventures is the company involved in?

V - Has the company ever voluntarily taken a minority position?

E/P - Does the company have a stated public position on minority ventures?

E - Has the company ever not entered a market because of minority ownership regulations?

5 - The parent company spends a long time weighing the costs and benefits of using a joint venture over other organization forms.

R - Is a minumum period allocated for studying the merits of a joint venture before proceeding with it?

V - Is there a company policy (either implicit or explicit) regarding the use of joint ventures?

E/P - Is it common knowledge within the parent company that a joint venture is being considered for a particular market entry?

E - How long is spent on the decision? Who in the company is involved in the decision?

6 - The parent company has contingency plans for providing its joint ventures with increased levels of assistance if necessary.

R - N/A

V - Were these plans developed at the joint ventures' request?

E/P - What is the level of financial reserves set aside (as noted in financial reports)?

E - Were the contingency plans formalized? Was the partner involved in planning them out? Who in the parent company was involved in developing these plans? How comprehensive are they?

7 - We are more interested in making the venture work than in satisfying parent company concerns.

R - N/A

V - Where do the joint venture managers' feel their loyalties lie? Will they be returning to the parent company?

E/P - Does either partner exhibit much flexibility as to whether they follow the joint venture agreement "to the letter"?

E - Does the JVGM work on issues relating to the venture before those issues relating to the parent company?

8 - Management from the parent company is quite willing to regularly visit and offer assistance to the joint venture?

R - Do the visiting parent company managers offer assistance or demand changes? Do they allow the JVGM to run the venture?

V - Do the parent company managers visit only when there are so many problems that they have no choice but to visit?

E/P - Does the parent company management specify a minimum number of annual visits it will make to the venture?

E - How long do the parent company managers stay for when they visit? How often do they visit?

9 - We are willing to seriously consider changing our current working procedures and reporting requirements to accommodate our partner.

R - Has the parent company been known to change its procedures for a partner in the past? (This assumes it is an issue to the partner)

V - Did the parent company give the partner a choice as to how reports would be compiled?

E/P - How many of the monthly reporting requirements for the joint venture differ from those of other subsidiaries?

E - In those cases where the partner asked for changes, how quickly were they implemented?

10 - We are willing to commit resources (people, time, money) to the venture even when it should technically acquire these things on its own.

R - When was the last time the parent committed resources in such a situation?

V - Is the joint venture manager aware of parent company willingness or is he hesitant to ask for help? Does the parent company even look at it in terms of who should do what?

E/P - Is it widely known that the parent company expects the JV to ask it for help before going outside the corporate structure?

E - How much time/money/people was committed during the most recent occurence? Did the parent charge the JV for its' help?

11 - We try to ensure that through regular meetings each partner knows what to expect from the joint venture.

R - Were written summaries distributed following any meetings on this subject?

V - Who initiated such discussions and how did the other party follow up on them?

E/P - Were meetings to discuss these issues conducted on a regularly planned basis?

E - How long were goals discussed and who was involved in the discussions? At what stage in the process did they occur?

12 - We try to include our partner even in those discussions which the management agreement says we can handle ourselves.

R - Is reference to the management agreement used as a "club" or a negotiating tactic?

V - As a matter of protocal, and because most things ultimately impact on the partner, does the other partner expect to be included in such discussions?

E/P - How often is the management agreement referred to?

E - How often is the other partner invited to participate in informal discussions?

13 - When special skills are required by the JV, we try to first find them in the parent organization.

R - How often have outsiders been hired?

V - Does the JVGM have a choice (i.e., are there local, qualilfied people normally available)?

E/P - Who in the JV knows when special skills are required?

E - Who in the parent company is first approached for help?

14 - The parent company is quite willing to adapt products to the needs of the local market.

R - Has it ever done so in the past?

V - Has a local partner ever suggested adapting a particular product?

E/P - Does the parent company have a publically stated policy concerning product adaptations to local markets?

E - Does the foreign firm pre-test or study its' products as to their suitability for the local market? (i.e., Is the issue product adaptation or product selection?) Could the product(s) currently being sold in the local market be further adapted to increase their local saleability?

15 - We spend a great deal of time beyond normal hours with our partner working on venture business.

R - Is the partner seen at all on a regular basis after hours?

V - Do you view time spent with the partner as a corporate duty (i.e., to serve as an early warning system) or is it done by choice?

E/P - Where do you see the partner (i.e., public or private gatherings)?

E - How much time is spent with the partner after hours? Is much of this time unrelated to business? Who is normally involved? Would you form another venture with the same partner?

16 - We have made a strong effort to increase the number of nationals employed in the venture.

R - Does the company have a policy of initially overstaffing and then removing the expatriates when it is quite safe to do so?

V - Has the parent company received any pressure to increase the number of local managers? From who?

E/P - How many locals are employed in upper management?

E - Has the number of managers in top management changed over the years? Does the parent company have a training program for local managers? Does the company have a policy of using expatriates rather than local managers in its subsidiaries?

APPENDIX 4

THE CHARACTERISTICS OF JOINT VENTURES IN LDCs

While the research focussed on the need/commitment-performance relationship in 12 core joint ventures, data were gathered in varying amounts, and on other variables, for a total of 66 joint ventures in LDCs. This section examines the characteristics of joint ventures in LDCs based on the 66-firm sample and compares the results to samples from developed countries. The characteristics examined include reasons for creating the venture, autonomy, stability, performance, frequency of government partners, and ownership. A summary of these findings was reported in Chapter IV.

Particular emphasis is placed on ownership/control results and their relationship to performance because of previous research attention to ownership and control.

Venture-Creation Rationales

Killing[1] divided the reasons for creating a venture into three groups: (a) government suasion or legislation, (b) partner's needs for other partner's skills; and (c) partner's needs for the other partner's attributes or assets. Assets include such items as cash or patents, while attributes which make a firm desirable for joint venture purposes are the use or manufacture of certain products.

Table 1 illustrates how joint ventures are created for different reasons in developed and developing countries. Sixty-four percent of the ventures in Killing's sample were created when each partner needed the other's skills. Only 38% of the joint ventures in the LDC sample were created for this reason. Nineteen percent of the ventures in the developed country sample were created because one partner needed the other's attributes or asset. Only 5% of the LDC sample were created for this reason. Seventeen percent of the ventures in the developed country sample were created as the result of government suasion or legislation, whereas 57% of joint ventures were created for this reason in LDCs. Janger obtained a similar result noting that nearly half of the companies in his sample that formed joint ventures in LDCs did so as a result of government requirements. Gullander (2) added that the one reason for many multinational firms, particularly in LDCs, to accept the joint-venture structure would be political. Tomlinson also noted that the major reason for using joint venture organization was either explicit or implicit government pressures.

TABLE 1

Relationship of Stage of Development to Venture-Creation Rationales

	Developed Country (%)	LDC (%)
Government Suasion or Legislation	17	57
Skills Needed	64	38
Assets or Attribute Needed	19	5

In several cases the MNE later realized that its early perception of being forced to form a joint venture by the government was false. A common misconception is that countries either require the use of joint ventures or do not. In LDCs it is seldom this clear: a few LDCs require most companies to form joint ventures; while most LDCs require only a few companies, those in strategic sectors, to form joint ventures.

In the core ventures, where more detail was available in 11 of 12 cases, five of the ventures were formed for government-related reasons. In one case the company was forced to become a joint venture; in another the multinational perceived an advantage in attaining government contracts by having local ownership; and in the other three, import restrictions were initiated such that the multinational would lose his access to the market if he did not establish a local manufacturing facility.

Of the 12 multinational companies involved in the core ventures, it was interesting that five already had manufacturing facilities in the host country. One of the five was a joint venture with partners from other developed countries, while the others were wholly-owned subsidiaries. In three cases, the subsidiary was converted to a joint venture after serious problems were encountered in trying to do business in the local market. The performance of two of these three businesses subsequently improved to such an extent that they have been classed as high performers.

Autonomy

All of the joint ventures in the 66-firm developing-country sample were managed by people supplied by one of the partners, in contrast to the 16% that were independently managed in Killing's developed country sample.

Stability

The LDC pilot survey showed a 41% instability rate (using Franko's measure) in the joint ventures of the Canadian multinationals. In the latter sample of 32 ventures of primarily non-Canadian multinationals, an instability rate of 50% was found. This suggests that the Canadian multinationals do not differ significantly from American and U.K. multinationals in stability of joint ventures. It also suggests that an overall instability rate in LDCs of about 45% seems normal. This is higher than the 30% joint venture instability rate found by Killing and Franko in developed countries.

It was possible to compare the stability rates of joint ventures between foreign partners and both local government and local private partners (see Table 2). Those involving government partners (12 in total) had an overall instability rate of 58%, much higher than the private partner level. The instability rate of joint ventures between foreign and local private partners was 43%, still well above the developed-country level.

A possible influence on joint venture stability is the age of the joint venture. The research partially controlled for this by including in the sample only ventures which were in existence for at least three years. Sufficient data was, however, not available to further correlate stability with age.

Performance

In the 32-firm LDC sample, MNE managers assessed a similar percentage of their joint ventures (59%) as unsatisfactory performers as they did in the 34-firm pilot survey (62%). In itself, this statistic is useful because

TABLE 2

Stability Rates

Data Collection Stages	Government Partner			Private Partner			Total
	Stable	Unstable	Subtotal	Stable	Unstable	Subtotal	
Pilot Survey (34 firms)	5	5	10	15	9	24	34
Subsequent Stages (32 firms)	0	2	2	16	14	30	32
Total (66 firms)	5(42%)	7(58%)	12(100%)	31(57%)	23(43%)	54(100%)	66

it provides some perspective on just how pervasive performance problems are with joint ventures in the developing countries. This is contrasted with the much lower 37% level found in developed-country samples. These differences are summarized in Table 3.

TABLE 3

Relationship of Stage of Development to Franko's Measure of Instability and a Managerial Assessment of Performance

Sample Size	Development Level of Country	Unstable (%)	Unsatisfactory Performance (%)
1100	Primarily Developed (DC) - Franko	30	(A)
36	Developed (DC) - Killing	30(B)	36
168	Mixed (DC and LDC) - Janger	(A)	37
66	Developing (this survey)	45	61

(A) no data provided
(B) Killing modified Franko's measure to include major reorganizations.

Several other characteristics of the post-pilot-survey sample are worth noting. The 32 ventures in the second and third phases of the data collection (which included the 12 core ventures) involved a total of 18 foreign multinationals. Seven of the 18 MNEs were involved in more than one joint venture, and all seven had both satisfactory and unsatisfactory joint ventures.

Most of the joint ventures in the sample that ceased operations did so because they failed. However, it would be technically incorrect to class all ventures that have ceased operations as unsatisfactory performers. For example, in one case the local government partner bought out the foreign partner's share in a venture after six years because they felt locals were finally capable of running it (which the foreign partner reluctantly agreed was true). Also, some ventures cease operations for reasons unrelated to being a joint venture or as part of an intentional strategy. These are all exceptions, however.

Nearly half of the ventures involved more than two partners. There was no difference in performance between ventures with two, or more than two, partners. The performance rates in the main source country, other Caribbean countries, and other LDCs were comparable (see Table 4).

Frequency of Government Partners

Twenty-three of the 66 ventures involved the foreign private firm having either government partners, public sharehlders, or other foreign partners. In only two of the 23 cases was the foreign partner satisfied with the joint venture's performance; none of the 12 ventures with govern-

TABLE 4

Venture Location - Performance Relationship

	Satisfactory Performance	Unsatisfactory Performance	Total	% of Total Unsatisfactory
JVs in Main Caribbean Country	4	8	12	66%
JVs in Other Caribbean Countries	3	5	8	62%
JVs in Other LDCs	19	27	46	58%
Total	26	40	66	61%

ment partners was deemed satisfactory (see Table 5). Given this relatively high frequency of joint venture formation between foreign, private and local government firms in LDCs, these performance results are particularly striking. Yet these observations are consistent with those of other joint-venture research. In an LDC-based sample, Raveed and Renforth (3) found that MNE executives favour forming joint ventures with local, private firms

TABLE 5

Venture Type - Performance Relationship

	Performance Satisfactory	Performance Unsatisfactory	Total	% of Total Unsatisfactory
Foreign Private - Local Private	24	19	43	44%
Foreign Private - Local Government	-	12	12	100%
Foreign Private - Foreign Private	1	7	8	88%
Foreign Private - Local Public	1	2	3	66%
Total	26	40	66	61%

over all other forms of foreign equity investment--including both wholly-owned subsidiaries and the other joint-venture forms.

Foreign private firms that had a local private partner were satisfied with performance much more often than with other types of partners (although overall satisfaction was still lower than in samples from developed countries). These performance observations provide support for the view (noted in a section following) that for MNEs to be successful they require partners with knowledge of the local economy, politics, and customs.

3. Ownership

For the majority (70%) of cases examined, the foreign firm was in a minority position with only a small proportion (10%) of the JVs being 50-50 membership. This contrasts sharply with developed-country samples, where half had 50-50 ownership. These results are summarized in Table 6.

TABLE 6

Joint Venture Ownership in Developed and Developing Countries

		Frequency of Equal Equity (50-50) Ventures	Frequency of Majority or Minority Equity Ventures
Developed Country Samples	Mergers & Acquisitions N = 153	43%	57%
	Killing N = 40	50%	50%
Developing Country	Mergers & Acquisitions N = 47	20%	80%
	This Research N = 66	10%	90%

The use of equal ownership was advocated by Killing in developed-country ventures. However, one writer on joint ventures in developing countries felt that, "What should be ruled out is a 50-50 shareholding (since) this will invariably lead to a deadlock in corporate decision-making."(4)

In an effort to verify the representativeness of the ownership levels found in Killing's developed-country sample and this pilot survey LDC sample, an examination was made of the ownership percentages noted in the Joint Venture Rosters of Mergers and Acquisitions (a management journal) over the period 1972-77. Of the approximately 1,000 joint ventures described, ownership detail was provided on 200 cases. Of the 153 JVs which took place between two firms in developed countries, 43% were equally owned. This is comparable to other developed country samples where 50% were equally owned.

In contrast, of the 47 ventures from Mergers and Acquisitions that took place between firms in developed and developing countries, 80% were majority or minority owned. A similar level was found in this LDC sample. (Note that there was a slight bias in the Rosters toward larger American joint ventures and the sample of 200 in most cases did not include ventures with four or more partners or those involving Eastern Bloc countries).

Also, other researchers (5) noted that just over 80% of two-partner, U.S. chemical joint ventures formed from 1924-69 had a 50-50 equity split. This again reinforces the high incidence of equal-equity ventures in developed countries, a situation that is in contrast to developing country ventures.

Multinationals have in many cases succeeded in accommodating LDC aspirations for local dominance or equality in the shareholdings of local joint ventures. The MNEs have been able to accommodate the LDC desires by spreading the ownership of each venture over a wider number of parties.

In the second half of the data-collection process, ownership detail was collected on a total of 16 ventures (including the 12 core cases) between local private and foreign private firms. In only a few cases did the MNE have over 50% of the equity. However, in most of the ventures the MNE's share of the equity was equal to or greater than that of the largest other shareholder.

Table 7 illustrates the performance problems associated with MNEs owning over 50% of the equity of LDC joint ventures. When the MNE owned less than 50% of the equity, there was a much greater likelihood of satisfactory performance. In 64% of cases (7 of 11) where the MNE owned less than half of the equity, performance was satisfactory. In contrast, in only 20% of cases (1 of 5) where the MNE was the majority shareholder was performance satisfactory.

TABLE 7

Actual Ownership - Performance Relationship

	MNE Actual % Under 50	MNE Actual % 50	MNE Actual % Over 50
Successful	4	3	1
Unsuccessful	2	2	4

Similarly, Table 8 shows that those MNEs which were minority or equal partners performed better than those cases where the MNE was the single, largest shareholder. Seventy-one percent (5 of 7 cases) of the ventures where the MNE was not the largest, single shareholder were successful versus only a 33% success rate (3 of 9 cases) where the MNE was the largest, single shareholder.

TABLE 8

Relative Ownership - Performance Relationship

	MNE Not Single Largest Shareholder	MNEs Share Equal to Largest Other Shareholder	MNE Single Largest Shareholder
Successful	1	4	3
Unsuccessful	0	2	6

Strong cases were made by the foreign and local partners in support of being both minority and equal-equity partners. The most common reasons cited for a multinational taking a minority equity position were existing regulations and/or local tax advantages. However, the range of reasons cited was wide. One executive explained his decision to take a minority position by noting that "with a high level of corruption in the country, it is better not to be high profile." Another noted that "those businesses in which the parent company holds less than 50% of the equity appear in the overall financial statements simply as an investment. This means company involvement can be much lower." Perhaps the most telling reason given for 50-50 equity arrangements was, as one executive noted, that "then you can't afford to quarrel."

Numerous researchers have correctly pointed out that there is no necessary correlation between ownership and control. While there is no necessary correlation, in practice a correlation has often existed, particularly in developed countries. There were strong links in Killing's sample of joint ventures in developed countries between ownership/control and performance. Seventy percent of his recommended dominant-management control ventures (those operated like wholly-owned sub-sidiaries) were majority owned. Conversely, 76% of the shared-management control ventures in his sample (the type he opposes) were equally owned by the partners. In the developed-country sample of joint ventures, when the MNE was the minority partner its role was often a silent one. This did not hold true in LDCs.

Researchers into joint ventures in developing countries have previously pointed out that local joint-venture partners are rarely passive shareholders. In Stopford and Wells' survey,(6) 88% of MNE respondents indicated that the local partner typically had at least some voice in management. In Schaan's (7) sample of 10 joint ventures in Mexico, all would be classed as having shared control. In the present research on joint ventures in LDCs, no correlation can be claimed between ownership and control because the MNE had majority ownership in only 21% of cases.

APPENDIX FOUR NOTES

(1) J. Peter Killing, Strategies for Joint Venture Success (New York: Praeger, 1983).

(2) Staffan Gullander, "Joint Ventures in Europe: Determinants of Entry," International Studies of Management and Organization (Spring-Summer, 1976), p. 106.

(3) S.R. Raveed and W. Renforth, "State Enterprise - Multinational Corporation Joint Ventures: How Well Do They Meet Both Partners' Needs?" International Management Review (1, 83).

(4) Canadian Consulate General-Brazil, Joint Business Ventures in Brazil: A Canadian Perspective (Ottawa: Department of Industry, Trade and Commerce, Government of Canada, 1981), p. 7.

(5) Sanford V. Berg and Philip Friedman, "Joint Ventures in American Industry," Mergers and Acquisitions (Summer, 1978), p. 29.

(6) John M. Stopford and Louis T. Wells Jr., Managing the Multinational Enterprise (New York: Basic Books, 1972), pp. 107, 208.

(7) Jean Louis Schaan, "Parent Control and Joint Venture Success: The Case of Mexico," Unpublished Doctoral Dissertation, School of Business Administration, University of Western Ontario, 1983.

BIBLIOGRAPHY

Adler, Lee, and James D. Hlavacek, Joint Ventures for Product Innovation. New York: Amacom, 1976.

Aharoni, Yair, The Foreign Investment Decision Process. Boston: Harvard University, 1966.

Angle, Harold L., and James L. Perry, "An Empirical Assessment of Organizational Commitment and Organizational Effectiveness", Administrative Science Quarterly, March 1981.

Barnet, R.J., and R.I. Muller, Global Reach: The Power of the Multinational Corporation. New York: Simon & Shuster, 1974.

Beamish, Paul W., "The Long March To China Trade", Policy Options, Volume 5, Number 6, November 1984.

______________, "The Role of Joint-Equity Ventures in the Theory of the Multinational Enterprise", Proceedings of the Annual Conference of the Administrative Sciences Association of Canada, International Business Division, Volume 5, Part 8, 1984, p. 32-41.

Beamish, Paul, and Henry W. Lane, "Joint Venture Performance in Developing Countries", Proceedings of the Annual Conference of the Administrative Sciences Association of Canada, International Business Division, Volume 3, Part 8, 1982, p. 1-9.

Beamish, Paul W., and Catherine Newfeld, "Diversification Strategy and Multinational Enterprise Performance", Proceedings of the Annual Conference of the Administrative Sciences Association of Canada, Policy Division, Volume 5, Part 6, 1984, p. 3-12.

Berg, Sanford V., and Philip Friedman, "Joint Ventures in American Industry", Mergers and Acquisitions, Summer 1978.

______________, "Joint Ventures in American Industry, Part II: Case Studies of Managerial Policy", Mergers and Acquisitions, Fall 1978.

______________, "Joint Ventures in American Industry, Part III: Public Policy Issues", Mergers and Acquisitions, Winter 1979.

______________, "Corporate Courtship and Successful Joint Ventures", California Management Review, Spring 1980, Vol. XXII, No. 3, p. 85-91.

Berlew, F. Kingston, "The Joint Venture - A Way Into Foreign Markets", Harvard Business Review, July-August, 1984.

Bivens, K.K., and E.B. Lovell, "Joint Ventures with Foreign Partners", National Industrial Conference Board. New York: 1966.

Boddewyn, Jean J., "Foreign and Domestic Divestment and Investment Decisions: Like or Unlike?" Journal of International Business Studies, Winter 1983.

Bower, Joseph L., Managing the Resource Allocation Process: A Study of Corporate Planning and Investment. Boston: Harvard University, 1970.

Brash, Donald T., American Investment in Australian Industry. Cambridge, Mass.: Harvard University Press, 1964.

Buchanan, Bruce, "Building Organizational Commitment: The Socialization of Managers in Work Organizations", Administrative Science Quarterly, Vol. 19, 1974.

Buckley, Peter, and Mark Casson, The Future of the Multinational Enterprise. Basingstoke and London: Macmillan, 1976.

Burton, F.N., and F.H. Saelens, "Partner Choice and Linkage Characteristics of International Joint Ventures in Japan: An Exploratory Analysis of the Inorganic Chemicals Sector", Management International Review, Volume 22, 1982, p. 20-29.

Business International Weekly Report, "Emerging Indian MNCs Are Making Inroads in JVs and Contracting", Business International, 5 March, 1982.

Business International, "Joint Venture Checklists: 44-50", 201 Checklists: Decision Making in International Operations, March 1980, p. 56-62.

Calvet, A.L., "A Synthesis of Foreign Direct Investment Theories and Theories of the Multinational Firm", Journal of International Business Studies, Spring/Summer, 1981, p. 43-59.

Canadian Consulate-General in Brazil, Joint Business Ventures in Brazil: A Canadian Perspective. Ottawa: Department of Industry, Trade and Commerce, Government of Canada, April 1981.

Casson, Mark, Alternatives to the Multinational Enterprise. London: Macmillan, 1979.

Caves, Richard E., Multinational Enterprise and Economic Analysis. Cambridge, Mass.: Cambridge University Press, 1982.

Chandler, Alfred D., Strategy and Structure. Garden City, New York: Doubleday, 1966.

Chudson, Walter A., and Louis T. Wells Jr., The Acquisition of Technology from Multinational Corporations by Developing Countries. New York: U.N., 1974.

Coase, Ronald H., "The Nature of the Firm", Economica (1937): 386-405. Reprinted in Readings in Price Theory, edited by G. Stigler and K. Boulding. Homewood, Illinois: Irwin, 1952.

Cohen, Jerome Alan, "Equity Joint Ventures: 20 Potential Pitfalls that Every Company Should Know About", The China Business Review, November-December 1982, p. 23-30.

Coish, H.O., "Joint Ventures and Bilateral Trade Agreement", Canada Commerce, January 1981.

Connor, John M., and W.F. Mueller, Market Power and Profitabiliy of Multinational Corporations in Brazil and Mexico. Washington: U.S. Government Printing, 1977.

Cozzolino, John M., "Joint Venture Risk: How to Determine Your Share", Mergers and Acquisitions, Fall 1981.

Dang, Tran, "Ownership, Control and Performance of the Multinational Corporation: A Study of U.S. Wholly-Owned Subsidiaries and Joint Ventures in the Philippines and Taiwan". Unpublished Ph.D. Dissertation. University of California, 1977.

Deutsche Entwicklungsgesellschaft (DEG), Annual Report 1980. Cologne: 1981.

________________, Investments in Developing Countries. Cologne: 1981.

Dilemma & Decision, "Should the CEO Proceed With His Joint Venture Plans?" International Management, May 1984.

Doz, Yves L., "Strategic Management in Multinational Companies", Sloan Management Review, Vol. 21, 1980, p. 27-46.

Dubin, Robert, Joseph E. Champoux, and Lyman W. Porter, "Central Life Interests and Organizational Commitment of Blue Collar and Clerical Workers", Administrative Science Quarterly, Vol. 20, 1975.

Dung, Anh Cao, "The Role of International Business Ventures in Economic Development and Public Policy: Lessons From Vietnam". Unpublished DBA Dissertation. The George Washington University, 1976.

Dunning, John H., International Production and the Multinational Enterprise. London: George Allen and Unwin, 1981.

__________, American Investment in British Manufacturing Industry. London: George Allen and Unwin, 1958.

Dymsza, William A., Multinational Business Strategy. Toronto: McGraw-Hill, 1972.

Eiteman, D.K., and A.I. Stonehill, Multinational Business Finance, 2nd Ed. Don Mills, Ontario: Addison-Wesley Publications, 1979.

Encarnation, Dennis J., "The Political Economy of Indian Joint Industrial Ventures Abroad", International Organization, Volume 36, Number 1. M.I.T. Press, Winter 1982.

Fayerweather, John, International Business Strategy and Administration. Cambridge, Mass.: Ballinger Publishing Company, 1978.

______________, "Four Winning Strategies for the International Corporation", Journal of Business Strategy 2, 1981.

Franko, Lawrence G., The European Multinationals. New York: Harper and Row, 1976.

______________, "The Art of Choosing an American Joint Venture Partner", The Multinational Company in Europe. London: Longman, 1972.

______________, "Joint Venture Divorce in the Multinational Company," Columbia Journal of World Business, May-June 1971.

______________, Joint Venture Survival in Multinational Corporations. New York: Praeger Publishers, 1971.

Friedmann, Wolfgang G., and J.P. Beguin, Joint International Business Ventures in Developing Countries. New York: Columbia University Press, 1971.

Friedmann, Wolfgang G., and George Kalmanoff, Joint International Business Ventures. New York: Columbia University Press, 1961.

Friedmann, Wolfgang, and Leo Mates, editors, Joint Business Ventures of Yugoslav Enterprises and Foreign Firms. Belgrade: 1968.

Fry, Joseph N., and J. Peter Killing, Canadian Business Policy: A Casebook. Scarborough, Ontario: Prentice-Hall Canada, 1983.

Galbraith, Jay R., and Daniel A. Nathanson, Strategy Implementation: The Role of Structure and Process. St. Paul, Minnesota: West Publishing Co., 1978.

Ghertman, Michel, and James Leontiades, editors, European Research in International Business. New York: North Holland, 1978.

Ginzberg, Michael J., "Key Recurrent Issues in the MIS Implementation Process", MIS Quarterly, June, 1981.

Grusky, Oscar, "Career Mobility and Organizational Commitment", Administrative Science Quarterly, Vol. 10, 1966.

Gullander, Staffan, "Joint Ventures and Corporate Strategy", Columbia Journal of World Business, Spring 1976.

________________, "Joint Ventures in Europe: Determinants of Entry", International Studies of Management and Organization, Vol. VI, No. 1-2, Spring-Summer 1976.

Hayashi, Kichiro, "Japanese Management of Multinational Operations: Sources and Means of Control", Management International Review 4, 1978.

Helleiner, Gerald K., Intra-firm Trade and the Developing Countries. New York: St. Martin's Press, 1981.

Hills, Stephen M., "The Search for Joint Venture Partners", Academy of Management Proceedings, 1978.

Hofer, Charles W., "Selected Observations on Useful Research Designs for the Strategic Management Field", University of Georgia, 1981 (mimeograph).

Hood, Neil, and Stephen Young, The Economics of Multinational Enterprise. New York: Longman Inc., 1979.

Hrebeniak, Lawrence G., and Joseph A. Alutto, "Personal and Role Related Factors in the Development of Organizational Commitment", Administrative Science Quarterly, Vol. 17, 1972.

Hunt, Pearson, Charles Williams, and Gordon Donaldson, Basic Business Finance. Georgetown, Ontario: Irwin Dorsey, 1971.

Hymer, Stephen H., The International Operations of National Firms: A Study of Direct Foreign Investment. Cambridge, Mass.: M.I.T. Press, 1976.

Hymer, Stephen, "Comment by Stephen Hymer (on 'Effects of Policies Encouraging Foreign Joint Ventures in Development Countries' by Wells)", in Ayal, E. (ed.), Micro Aspects of Development. New York: Praeger, 1973.

Janger, Allen R., Organization of International Joint Ventures, New York: The Conference Board, 1980.

Joint Venture Rosters, Mergers and Acquisitions, 1972-76.

Kenya External Trade Authority, Guidelines for Investment in Kenya. Nairobi: 1980.

Kiesler, Charles A., The Psychology of Commitment. New York: Academic Press, 1971.

Kiesler, Charles A., and Joseph Sakumura, "A Test of a Model for Commitment", Journal of Personality and Social Psychology, Vol. 3, 1966.

Killing, J. Peter, Strategies for Joint Venture Success. New York: Praeger, 1983.

________________, "How to Make a Global Joint Venture Work", Harvard Business Review, May-June 1982.

__________________, "Technology Acquisition: License Agreement or Joint Venture", Columbia Journal of World Business, Fall 1980.

__________________, "Joint Venture Stability", U.W.O. School of Business Working Paper No. 211, London, Ont.: October, 1978.

Kobayashi, Noritake, "Some Organizational Problems", Joint Ventures and Japan. Tokyo: Sophia University, 1967.

Kolde, E.J., The Multinational Company. Toronto: Lexington Books, 1974.

Kosnik, Joseph T., Natural Gas Imports from the Soviet Union: Financing the North Star Joint Venture Project. New York: Praeger Publishers, 1975.

Kumar, K., and Maxwell G. McLeod, editors, Multinationals from Developing Countries. Lexington, Mass.: Lexington Books, 1981.

Lane, H.W., "Systems, Values and Action: An Analytic Framework [illegible] Intercultural Management Research", Management International Review 3, Vol. 20, 1980.

Lane, H.W., R.G. Beddows, and Paul R. Lawrence, Managing Large Research and Development Programs. Baltimore, MD: State University of New York Press, 1981.

Lane, Henry W., and Paul W. Beamish, "The Promise and Problems of Field Research in International Business", Proceedings of the Annual Conference of the Administrative Sciences Association of Canada, International Business Division, Volume 4, Part 8, 1983, p. 210-219.

LaPalombara, Joseph, and Stephen Blank, Multinational Corporations and Developing Countries. New York: Conference Board, 1979.

____________________________, Multinational Corporations in Comparative Perspective. New York: Conference Board, 1977.

Lawrence, Paul R., "Modes of Research in Administration: History Revisited". Cambridge, Mass.: 22 Jan. 1979. (mimeograph).

Lawrence, Paul, and Davis Dyer, "Toward a Theory of Organizational and Industrial Adaptation", Working Paper - Graduate School of Business Administration, Harvard University, 1981.

Lecraw, Donald J., "Performance of Transnational Corporations in Less Developed Countries", Journal of International Business Studies, Spring/Summer 1983.

Lubar, Robert, "Reaganizing the Third World", Fortune. New York: 16 November 1981.

McMillan, C.H., and D.P. St. Charles, Joint Ventures in Eastern Europe: A Three Country Comparison. Montreal: C.D. Howe Research Institute, 1974.

Nehemkis, Peter and Alexis Nehemkis, "China's Law on Joint Ventures", California Management Review, Summer 1980, Vol. XXII, No. 4, p. 37-46.

Newbould, Gerald D., Peter J. Buckley, and Jane C. Thurwell, Going International. Toronto: John Wiley and Sons, 1978.

Newfarmer, R.S., and W.F. Mueller, Multinational Corporations in Brazil and Mexico: Structural Sources of Economic and Noneconomic Power. U.S. Government Printing, 1975.

Nunnally, Jum C., Psychometric Theory. Toronto: McGraw-Hill, 1967, 1978.

__________, Tests and Measurement - Assessment and Prediction. Toronto: McGraw-Hill, 1959.

Ouchi, William G., and Alfred M. Jaeger, "The Z Organization: Stability in the Midst of Mobility", Academy of Management Review, April, 1978.

Patton, Donald J., and Anh-Dung Do, "Joint Ventures in Yugoslavia", Management International Review, 4, 1978.

Peter, Paul J., "Reliability: A Review of Psychometric Basics and Recent Marketing Practices," Journal of Marketing Research, February 1979.

Peterson, Richard B., and Justin Y. Shimada, "Sources of Management Problems in Japanese-American Joint Ventures", Academy of Management Review, October 1978.

Pfeffer, J., "Merger as a Response to Organizational Interdependence", Administrative Science Quarterly, 1972.

Pfeffer, J., and Gerald R. Salancik, The External Control of Organizations. New York: Harper and Row, 1978.

Phillips Jr., W.G., "An Examination of the Public Stock Offering as an Ownership Strategy for United States Direct Private Investment in Mexico". Unpublished Ph.D. Dissertation, University of Nebraska, 1970.

Poynter, Thomas A., "Government Intervention in Less Developed Countries: The Experience of Multinational Companies", Journal of International Business Studies, Spring/Summer 1982.

__________, "Multinational Enterprises and Political Risk in Less Developed Countries". Unpublished Ph.D. Dissertation. London Graduate School of Business Studies, 1978.

Qualitative Methodology, Administrative Science Quarterly, Volume 4, December 1979.

Rafii, Farshad, "Joint Ventures and Transfer of Technology to Iran: The Impact of Foreign Control". Unpublished Doctoral Dissertation. Harvard University, 1978.

Raveed, Sion, "Joint Ventures Between U.S. Multinational Firms and Host Governments in Selected Developing Countries: A Case Study of Cost Rica, Trinidad and Venezuela". Unpublished DBA Dissertation. Indiana University, 1974.

Raveed, S.R., and W. Renforth, "State Enterprise - Multinational Corporation Joint Ventures: How Well Do They Meet Both Partners' Needs?" Management International Review 1, 1983.

Renforth, W.E., "A Comparative Study of Joint International Business Ventures with Family Firm or Non-Family Firm Partners: The Caribbean Community Experience". Unpublished DBA Dissertation. Indiana University, 1974.

Reuber, Grant L., with H. Crookell, M. Emerson and G. Gallais-Hamonno, Private Foreign Investment in Development. Oxford: Clarendon Press, 1973.

Richs, David A., International Dimensions of Corporate Finance. New Jersey: Prentice Hall, 1978.

Riddle, Dorothy I., "Reflections on the Asian Perspective: Joint Ventures with the Japanese", (unpublished mimeo), May 1983.

Robinson, Richard D., Foreign Investment in the Third World: A Comparative Study of Selected Developing Country Investment Promotion Programs. Washington: U.S. Chamber of Commerce, 1980.

________________, National Control of Foreign Business Entry. New York: Praeger Publishers, 1976.

Robock, S.H., and K. Simmonds, International Business and Multinational Enterprises, 3rd Edition. Homewood, Illinois: Irwin, 1983.

Rose, W.D., P.H. Ady, D.T. Brash, A.V. Desai, and H.M. Oliver, Joint Ventures and Their Relationship to Aid Programmes. Wellington, New Zealand: Institute of Economic Research, 1974.

Roulac, Stephen E., "Structuring the Joint Venture", Mergers and Acquisitions, Spring, 1980.

Rout, Lawrence, "Latin Labyrinth - In Mexico Operations, Foreign Concerns Face Reams of Red Tape", The Wall Street Journal, 16 February 1982.

Rugman, Alan M., "The Comparative Performance of U.S. and European Multinational Enterprises, 1970-79", Management International Review 23, 1983.

__________, Inside the Multinationals: The Economics of Internal Markets. London: Croom Helm, and New York: Columbia University Press, 1981.

__________, International Diversification and the Multinational Enterprise. Lexington, Mass.: D.C. Heath, 1979.

__________, "Internalization as a General Theory of Foreign Direct Investment: A Reappraisal of the Literature", International Business: A Canadian Perspective, Edited by K.C. Dhawan, Hamid Etemad and Richard W. Wright. Don Mills, Ontario: Addison-Wesley, 1981.

Salancik, Gerald R., "Commitment and the Control of Organizational Behavior and Belief" in Barry M. Staw and Gerald R. Salancik, New Directions in Organizational Behavior. Chicago: St. Clair Press, 1977.

Schaan, Jean Louis, "Parent Control and Joint Venture Success: The Case of Mexico". Unpublished Doctoral Dissertation, University of Western Ontario, 1983.

Schendel, Dan, and C.W. Hofer, editors, Strategic Management. Toronto: Little Brown and Co., 1979.

Sheldon, Mary E., "Investments and Involvements as Mechanisms Producing Commitment to the Organization", Administrative Science Quarterly, Vol. 16, 1971.

Seigal, Sydney, Non Parametric Statistics for the Behavioral Sciences. Toronto: McGraw-Hill, 1956.

Simiar, Farhad, "Major Causes of Joint-Venture Failures in the Middle East: The Case of Iran", Management International Review, Volume 23, 1983, p. 58-68.

Simon, Julian L., Basic Research Methods in Social Science, 2nd Edition. New York: Random House, 1978.

Simpson, Donald G., "Progress Report on the Canada-Africa Business Advisory Group", London, Ontario, November 1981 (mimeograph).

State Council, "Regulations for the Implementation of the Law of The People's Republic of China on Joint Ventures Using Chinese and Foreign Investment", Beijing Review, No. 41, October 10, 1983.

Steers, R.M., "Antecedents and Outcomes of Organizational Commitment", Administrative Science Quarterly, March 1977.

Stevens, J. Hugh, "Joint Ventures in Latin America", The Business Quarterly, Winter 1974.

Stevens, John M., Janice M. Beyer, and Harrison M. Trice, "Assessing Personal, Role, and Organizational Predictors of Managerial Commitment", Academy of Management Journal, Vol. 3, 1978.

Stopford, John M., John H. Dunning, and Klaus O. Haberich, The World Directory of Multinational Enterprises. New York: Facts on File Inc., 1980.

Stopford, John M., and Louis T. Wells, Jr., Managing the Multinational Enterprise. New York: Basic Books, 1972.

Stuckey, John A., Vertical Integration and Joint Ventures in the Aluminum Industry. Cambridge, Mass.: Harvard University Press, 1983.

Sullivan, Jeremiah, and Richard B. Peterson, "Factors Associated with Trust in Japanese-American Joint Ventures", Management International Review, Volume 22, 1982, p. 30-40.

Teece, David J., "The Multinational Enterprise: Market Failure and Market Power Considerations", Sloan Management Review, Spring, 1981.

Tomlinson, James W.C., The Joint Venture Process in International Business: India and Pakistan. Cambridge, Mass.: The M.I.T. Press, 1970.

Tomlinson, J.W.C., and M. Thompson, A Study of Canadian Joint Ventures in Mexico - Interim Report. Ottawa: Department of Industry, Trade and Commerce, 1976.

Tomlinson, J.W.C., and C.S.W. Willie, "Modelling the Joint Venture Process in Latin America: Mexico", Canadian Journal of Development Studies, Vol. III, No. 1, 1982.

Truitt, J.F., Expropriation of Private Foreign Investment. Indiana: Graduate School of Business, Indiana University, 1974.

United Nations, Manual on the Establishment of Industrial Joint Venture Agreements in Developing Countries. New York: U.N., 1971.

Vaubel, James W., and Joan P. Curhan, The World's Multinational Enterprises. Boston: Harvard University Press, 1973.

Vernon, Raymond, The Economic Environment of International Business. New Jersey: Prentice Hall, 1972.

Walmsley, J., Joint Ventures in Saudi Arabia. London: Graham and Trotman Ltd., 1979.

Wells, Louis T. Jr., "Joint Ventures - Successful Handshake or Painful Headache?" European Business, Summer 1973.

______________, Third World Multinationals: The Rise of Foreign Investment from Developing Countries. Cambridge, Mass.: The MIT Press, 1983.

______________, "Effects of Policies Encouraging Foreign Joint Ventures in Developing Countries", in Ayal, E. (ed.), Micro Aspects of Development. New York: Praeger, 1973.

Weick, K.E., "Systematic Observational Methods", in The Handbook of Social Psychology II. Reading, Mass.: Addison-Wesley, 1968.

White, Roderick E., "Structural Context, Strategy and Performance". Unpublished DBA Dissertation. Harvard University, 1981.

Williamson, Oliver E., Markets and Hierarchies: Analysis and Antitrust Implications: A Study in the Economics of Internal Organizations. New York: Free Press, Macmillan, 1975.

World Bank, World Development Report 1980. Washington D.C.: Oxford University Press, August 1980.

Wormald, Avison, International Business. London: Pan Books Ltd., 1973.

Wright, Richard W., and Colin S. Russel, "Joint Ventures in Developing Countries: Realities and Responses", Columbia Journal of World Business, Summer 1975.

Wright, Richard W., "Canadian Joint Ventures in Japan", in International Business: A Canadian Perspective, edited by K.C. Dhawan, Hamid Etemad, and Richard W. Wright. Don Mills, Ontario: Addison-Wesley, 1981.

Wrigley, Leonard, "Divisional Autonomy and Diversification". Unpublished DBA Dissertation, Harvard University, 1970.

Zenoff, David G., "Remitting Funds from Foreign Affiliates", Financial Executive, March 1968.

END

14 11 85

FIN