Basic Concept
for
Successful International Joint Ventures

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[ I ] Introduction

The environment surrounding today's enterprises cannot be distorted
saying that to some respect regardless whether the companies at home or
abroad are exposed to the international wave. Starting from the Japan-
U.S. trade friction, the situation is that there are many examples of
enterprises making inroads in order to manufacture in the United States
or make inroads into the ASEAN countries of further plan for cost reduction
because of being pressed for competition by the ASIANICs.

Virtually there is no end to the list of inroads into foreign countries
not only from Japan but from foreign countries beginning from the United
States into Japan as well. Various objectives can be observed such as
to secure position in the Japanese market or to secure technology held by
Japanese companies. Whether inroads are made from Japan into overseas
or from overseas into Japan, the objectives are after all the same such
as to secure a strong manufacturing site, market position, and technology
for the intention of company growth.

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Conceivably, the form of inroads can be either by tie-up (technological, capital), capital participation, joint venture, merger and acquisition, 100% investment, set up a branch office, sales office or a representative office. These forms vary depending on what objectives are planned by the company, and there are cases where only foreign capital can be contemplated due to legal factors concerned with investment. Therefore, each enterprise would have to take the best form they can think of among the limited alternatives after clearing the specific factors at the site concerned with respective types of business.

Under the situation of technological or capital tie-ups, the intentions of the existing company at the site would largely remain, and as a form of making inroads, this may be rather a negative approach but could be also looked upon as a first step in developing positive inroad activities. At least, it is normal that it is not a big deal on the surface as long as the capital percentage is in the range where consolidated closing of accounts of the inroad company would not have to be appropriated at the home country. Also, if in the case of making inroads by taking over the company or by 100% capital investment, the intentions of the inroad enterprise would have a large impact, and would be a very positive form of inroad structure.

The intermediate form among these would be the form of a joint venture. When taking the form of a joint venture, depending on the regulations at the site, there are cases of joint capital investment with the site enterprise is compulsory. In that case, although an inroad of 100% capital investment is intended, a joint venture must be taken. The bumiputra priority policy seen in countries like Indonesia and Malaysia is exactly such an example. For example, when trying to make inroads into Malaysia, it is obligated that a 30% investment by the Malaysian (Bumiputra), 40% by the Chinese of Malaysian citizen often referred to as non-bumiputra, and 30% investment by foreign enterprise must be achieved. In reality, although the trend is to undertake an operation based on foreign investment by looking for a partner for the purpose of capital gain only without interfering in management, but as a form, a
joint venture cannot be helped.

Also from the viewpoint of problems like investment capacity or securing raw materials at the site, an aggressive form of joint venture can very well be considered. For example, if the strength between an in-road enterprise providing technology as a foreign investment, and the site enterprise controlling the raw material market at the site is compared favorably with each other, a 50% : 50% investment ratio joint venture can be entered would be a good example.

Examples of such joint venture companies cannot be helped carrying many internal problems compared to companies investing 100% and make inroads to totally reflect their own intentions. This is because actions ignoring the rights of decision making in accordance with the investment ratio cannot be taken. Conversely, although the investment ratio is 7 : 3, there is no guarantee saying that the decision making by the majority of 70% is always the best decision making for the joint venture residing at the site. Even though it is the majority, the significance in its own way of the partner's intentions who has a full grasp of the situation of the site should be appreciated and would be dangerous to decide simply by the logic of majority on the actions and intentions of the joint venture company at the site.

Although very successful in the home country, the enterprise who had pulled out because of failure in making inroads at the site can be assumed that for some reasons there were facts lacking compatibility to the site. By disregarding the intentions of the site side from the logic of the strong man majority and in the case of bringing in and forcing the Japanese style management system would be exactly the way of planting the seed of failure.

When considering the factors in order to be a successful joint venture, it is not the problems on the surface such as technology transfer or financial aid but rather in my opinion that you cannot overlook the problem of communication such as lack of understanding between the two joint companies at the site or reliable relation between the investors. Accordingly, the purpose of this article is to develop an opinion by "propos-
ing” for requesting for opinions from various people in different fields on what to think about in order for the international joint ventures to be successful or what to accomplish.

II. Factors Effective for Enterprise Activities

When looking at the enterprise in terms of an organizational structure, it is easy to draw up an organization chart to reflect the intentions of the organization and to describe the organic actions. An organization in a pyramid shape consists of a general meeting of stockholders and board of directors meeting as means of decision making which take pride of being the traditional business administration theory, and under this are various divisions and departments under the president who promotes the daily work which is the known fact of being the internationally accepted idea.

When the organization described in the chart functions organically and effectively coping with the external environment is said to have improved the performance of the enterprise. (What is the meaning of performance may not need to be defined here. But it could be the sales amount, profit, or various percentages relative to these.) Improvement of performance can be looked upon as a sign of the intentions of the enterprise organization as its organism body. Ultimately, all the performances can be expressed in measurable figures. Plainly, the balance sheet (B/S) and the profit and loss statement (P/L) would show the profile of the performance of the enterprise.

There is no question about the B/S or the P/L being important indeed for reflecting the performance of the enterprise. The problem is why does the B/S show like this, or why did the P/L become like this---in other words the key point is to pay attention to its process.

When you question the efficiency or the productivity, the figures would largely be of importance. Whether top-down or bottom-up where is the problem in the flow of the intention, or where can it be improved to obtain a more efficient performance would be argued based on the figures. As a result, improvement points can be found and by getting rid of the
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problem areas further improvements in the performance can be expected. However, as a practical question it cannot be denied that it may run into playing around with figures.

As Japan having a homogenous race, with single language, and a unitary state with not much of a disparity in wealth, and the people having a sense of middle class, and the enterprise generally having a high educational level can uniformly communicate the intentions of the organization, and carry out into actions without feeling much difficulties. Also the comparison of the parts which can be measured appearing as the results of these can be made comparatively simple. This is because it can be observed uniformly in sideways. Conceivably, the process of decision making concealed behind the figures is standard in all enterprises, and that there are no big difference whatever in the background of organizational actions. Perhaps it could rather be the special characteristics of a Japanese enterprise being located in the land of Japan.

As a matter of fact, when thinking of international joint ventures, can such a uniform way of transmitting intentions possible? It's bound not necessarily to be that simple. Although the measureable parts appearing on the surface may slightly differ depending on each country's tax law, but if it is assumed it is processed based on the internationally accepted accounting procedures, whether the enterprise is from any country or not, it should be able to take a form which could be clear to everyone. However, it could conceivably be that the process of figures coming out seems alike only in appearance. This is because it can be presumed that the decision making process and action patterns as an organizational body depending on the internal and external environment surrounding the enterprise are largely different. If you try to judge the performance only by the measurable parts and disregarding this point, it is possible that overseas joint ventures may be forced to pull out.

Figure 1 shows a tentative plan considering the factors composed by an enterprise as an organizational body.

As mentioned before, the measurable parts showing up would be the portion reflecting the intention (performance) of the enterprise most clearly.
As long as you pay attention to the special processes taken according to the inflation accounting such as the correction of money (correção monetária) in Brazil, or extreme devaluation enforced in Indonesia in 1986, and to the special problems in accordance with the difference in processing of the tax law, the figures of accounting based on the international accepted accounting procedures can be observed without any feeling of disorder. In other words, whether the enterprise is of any country in the world, comparison is possible, and its style can be said to be arranged as an enterprise of modern management.

What I would like to say about in Figure 1, is not the technical arguments of the measurable parts which is no exaggeration to say that it has been already argued out, but rather a problem of how to tie-in the measurable parts with the under supporting portion. It is needless
to say this but in regards to the respective parts the following views are made.

Business Strategy: This is the portion directly reflecting the performance of the enterprise. Depending on good or bad of the business strategy, it would obviously influence the performance of the enterprise. By conforming with the change of external environment of the enterprise (or in anticipation of) whether being able to clarify the proper policy of the enterprise would certainly be the turning point of the bright and dark sides of the performance of the enterprise. It is the fact also that there is depth in the contents as more as when the study domain is brought into existence as a business strategy argument. The problem of this portion is how factors such as finance, organization, labor, marketing, manufacturing, and products can be tied into the measurable parts.

Market Factors: When constructing a business strategy, actions like disregarding the market cannot be considered. The big question here would be the problems such as; how is the market being the target constructed, and in what direction is it moving? And how the growth scale can be looked at? When speaking of the market, mainly the product market is remembered, but the procured raw material market can be said as being the same. Here, from a broad meaning, which ever the product or raw material market taken would be the market factor. The structure would be where there is a business strategy supported by the market factors, and the measurable parts existing as a result of the business strategy.

Law, Administration and Economical Structure: The measurable parts, business strategy, and market factors are normally problems taken up within the broad sense of management theory. However, there is no difference in the enterprise itself being a social existense as an organizational body, and it is impossible for the enterprise to have no relations to the social structure where it resides. Normally, it is the same as the individual as being a natural person whereas the corporation cannot take any actions which would violate the social regulations or standards.

There are cases of a special factor seen concerning the type of industry which the enterprise belongs such as being authorized to the defense
industry, or to deal with special mineral products. Besides, there may be cases where activities of private enterprises are restricted for national undertaking.

As a business practice in society, there should be cases also required to follow the special ways of the country or the region. In case of joint ventures, although it's not a problem at the home country of the parent company, but at the site it may be necessary to act based on entirely different administrative guidance, or generate misunderstandings due to the difference of economical structure may be seen here and there.

In order to grasp the market factors, it can be easily understood that it will lack accuracy if such social climate is not seized. Therefore, factors in this level as to impose restrictions to enterprise actions, or conversely offer incentives cannot be ignored.

History, Culture, Religion, and Race: There are opinions that the modern business management is the most rationalized method, and it can be accepted no matter where the enterprise is located. The structure having a modelled systematic flow is certainly desirable, and perhaps evident of raising the productivity. However, to bring in a modern industry suddenly in a capital-intensive style into a location where they only know the household industry as it was before would not be easily accepted as it is. If you try to bring in new things by force and in a rush, it would surely invite many rejections in vain.

In an Islamite country, it would be difficult trying to bring in the labor management system as it is based on Confucian ideas. By taking into consideration with the employees praying to the God of Allah five times in a day and shifting the production line, and to arrange constructing a mosque in the plant are exactly symbolizing this problem.

When speaking of the historical background, cultural level, religious sense, and racial characteristics of the country where the enterprise exists tend to be comparatively forgotten in so far as when pursuing economical rationalization. However, in fact, it should be noticed that these are the most important factors leading the enterprise to success.

Even when selecting a partner for the joint venture, to grasp what
kind of sense the other party who is going to operate the enterprise together as a partner would have, and the background of why they think that way are the most important factors in making communication easy should be clear.

The axis of the cone shown in Figure 1, cannot be said which direction it's facing is correct. When forming a joint venture, perhaps it's necessary to select what you think best by judging the situation of the joint venture is locted. As mentioned before, do not simply judge only by the investment ratio. It is true that the normal cone having the cone axis in the center is a well balanced shape and may be ideal for a model. However, the piling up from the base starting from the views of racial characteristics or religious sense can be possibly considered to raise the performance of the enterprise by inclining towards one side as shown in Figure 2.
The distortion of the axis shows the way of thinking of respective partners configuring the joint ventures, and in some cases, if \( A \) in Figure 2 then successful, and if \( B \) if may fail. Opposite to this, there could be a case where if \( A \) could be a failure, and if \( B \) successful. Besides, either cases could be a failure, and with entirely a different pile up it may succeed whatsoever.

Nevertheless, depending on how the most qualitative portion which is at the rockbottom base is seized would determine the success or failure of the joint venture. The differences in the action patterns by the religion or race cannot absolutely say what is the best or the worst, and depending on between the partners, and by trial and error with excellent communication, the action pattern of the joint venture would naturally be determined. When it comes to this level, it is my opinion that it's not simply the problem of the level whether you can speak the language or not as a means of conveying intentions, but decision making based on mutual sense of trust as a partner would be the large factor.

III. Control of Joint Venture

There may be no argument in saying that investment ratio is the most straightforward way of showing the power relationship of a joint venture. In general, when the relationship of management control of the enterprise and investment ratio is grasped, it may look like Figure 3. Even Figure 3, same as Figure 1 is yet in the stage of developing my opinion which is expected to be completed from now on.

When there is a tie-up without any capital relationship, it may be considered that there is a case of capital participation is not legally approved, or a case of capital participation is deliberately not made because the management of the intended enterprise is not all that attractive. In case of the enterprise belonging to the defense industry, there are cases seen ended up only by technical tie-up because capital participation of more than a certain ratio is not approved (or totally not approved) against entry of foreign capital. Also, when it is attractive to tie-up only concerning a specific market, and a specific product, and do not want
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Fig. 3. Form of Management Control by Investment Ratio
to participate actively in the management of the tie-up enterprise itself would exactly be this case.

In order to raise the investment ratio against the target enterprise, a most drastic approach by take-over bid (TOB) of acquiring the number of stocks enough to seize management control in one stretch can be considered. In Europe and America without any feeling of imcompatibility it is taken as an everyday affair, but in case of a Japanese enterprise at least in Japan there seems to be still some incompatible feeling. Accordingly, it is normal that the transfer of investment ratio is carried out by buying out the stock from the stock market under the understanding with conclusive work behind-the-scenes, or by changing the investment ratio by the third party allocated capital increase. In a sense, this is the gentle way of forming a joint venture by investing capital into an existing enterprise. In order to form a new joint venture, these things do not necessarily need to be considered but can be completed by deciding each other's investment ratio.

The following can be said if the relationships of affiliation and investment ratio are confirmed in Figure 3.

Capital Participation: Depending on the commercial regulations of each country, although we cannot absolutely say so but it can be looked upon as capital participation if the number of stocks are acquired more than enough to obtain the rights to present the bill at the stockholders' meeting.

Capital Tie-Up: Considered as capital tie-up stage when the investment ratio is up to the stage of 10%-20%.

Affiliation/Grouping: In order to be able to appropriate the target enterprise in the consolidated financial statement, it is required that the investment ratio is over 20%. Therefore, in case of more than 20% investment ratio, it is often said that it has been affiliated or grouped as one of the members of the enterprise group since the intentions of the parent company are largely reflected. In the case of affiliation, as you can see in the example of product lines of the home appliance retail stores in Japan, the word affiliation is used even for simple tie-up relationship.
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Here, the term affiliation and grouping is interpreted almost as a synonym under the assumption that there is a capital relationship.

Joint Venture: In regards to what it takes to call it a joint venture by how many percent of investment, there are no documents found giving a specific definition. In case of Japan, the investment ratio required for obtaining license from MOF (Ministry of Finance) in order for overseas direct investment is more than 10%, and if the intention of participating in the management is clear, it can be considered that a joint venture is already formed if the investment ratio is from 10% up to investment ratio of 20% where the financial closing can be the object of consolidation.

Acquisition: Same as in the case of the above joint venture, it is difficult to say from what percentage is in the acquisition situation. At least a yardstick of having an equity share of over 50%, and when the intention is clear of positive management participation should be considered. Because, when floating stocks having no intentions of management participation take up 50%, then by acquiring stocks of 20%-30%, it becomes possible of practically gaining the management control, and such a situation is exactly the acquisition itself.

Merger: Basically, merger is observed as when it is combined into the same enterprise without existing as a separate company by 100% acquisition of stocks. In case of continuing as a separate company after 100% stockholding, is that only the position is held as a holding company and is not suitable to the concept of a merger.

As in Figure 3, when considering the control relationship of a joint venture, and separate from the case of the investment ratio is obligated under law, it becomes obvious at the stage of forming the joint venture of who will be holding the management control.

In case of an American enterprise, there are many cases of establishing a joint venture by 50%:50% investment ratio. However, in case of a Japanese enterprise, it is frequently seen taking the form of an irregular investment ratio such as 6:4 or 7:3, trying to keep the majority on the side of the Japanese enterprise. In a joint venture, as a matter of fact,
where is the significance of taking the majority? Where is the difference in the case of 51% : 49%, and with the case of 70% : 30%? This is where a case of grave doubt is placed on. Whether the investment ratio is 51% or 70%, there is no difference in controlling the majority. The total amount collecting from the joint venture in terms of dividends is natural that 70% investment ratio would be more than 51% investment ratio, but there is no difference in the dividend rate per stock, but it only means the total amount invested was more. Accordingly, the basis of a joint venture is a business management by a 50% : 50% investment ratio, and the investment ratio such as 6 : 4 or 7 : 3 simply means that it's the same as 100% : 0%. Therefore, for some reasons, the only effective means left would be when there is a need for taking the shape of a joint venture (when 100% investment cannot be approved or "impossible"). Perhaps there is not much of a merit to change the investment ratio just for the purpose of taking the majority.

With the assumption of 50% : 50%, if the basis of managing the joint venture is to manage as equal stockholders the power of stockholders will compete as shown in Figure 4. The area (A) and area (B) in Figure 4

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are the areas which characterize the respective own claims, and is the area recognized by each other. The areas (A)' and (B)' are the areas which the claims cross each other, and where the performance of the joint venture should be largely affected depending on how they are adjusted.

The areas (A)' and (B)', where the own claims cannot reach an agreement between partner A and partner B, and is precisely where it could be the areas originated by religious sense or racial characteristics between partner A and partner B. Because, this area ought to be the area which the action pattern of each others most difficult to tolerate. The conflict in this area is the conflict of coping with the question not having the right answer. The importance of communication mentioned in the foregoing section [II], is exactly meant to resolve this conflict.

[IV] Conflict in International Joint Venture

As it was observed up to now, the key point of determining success or failure of the international joint venture is of course the superiority of language as a means of communication within the joint venture is fine but it would depend further on a higher level of how actions are taken by understanding how much of the cultural backgrounds of each other. Especially in a 50% : 50% investment ratio, in order to participate equally in management is precisely where this point should be seriously considered. With the same fellow countrymen, for example with fellow Japanese, and even when actions are taken having the same intention within the same enterprise that there are difficulties in understanding each other due to incompatibility in character can also be fully considered, and much more in case of an international joint venture, you cannot expect to evaluate the partner by criticizing only the measurable parts as in Figure 1.

As it was made clear in the beginning of the foregoing section [II], there is no difference of opinion about the intentions of the joint venture finally being decided by the investment ratio. However, by the majority directional ignoring the partner or the special characteristics of the country where the joint venture is located will not be able to generate desirable
Intentions of Partner A

Intentions of Partner B

Fig. 5. Pile Up by Reaching Agreement at Each Level

results. Without sticking to the investment ratio, it may be necessary to always communicate with each partner on the grounds of what is the best at the site.

Figure 5 observes the overlapping of the pile up of each factor of Figure 1 and the variation of judgment between the areas (A)' and (B)' of Figure 4. (Cone axis can be turned to any direction). By assuming 50%:50% investment ratio, and as a result of thorough mutual communication, it is the case where the intentions of the slanting lined area of partner A (foreign) and the intentions of the blank area of partner B (local) are assumed to be tactfully piled up.

Which direction the axis would turn would be determined by itself of how the pile up from the bottom would build up. The important thing is that it depends on how well this pile up will build up or not. That is, whether it is well linked from bottom to upward. In other words, whether it can go through the axis or not.
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Fig. 6. Example of Pile Up Failure by not Reaching Agreement at Each Level

When the conflict between partner A (foreign) and partner B (local) cannot be dissolved smoothly, the pile up would collapse at some place. Figure 6 illustrated exactly the joint venture where the conflict between partners A and B cannot be dissolved. In Figure 6, it shows where it does not go through the axis which supports the piling up cone. Regardless which way the direction of the axis is turned, the cone can be piled up by keeping the balance as long as it is within a certain tolerance. This can be seen in Figure 2.

The process of dissolving the conflict between partners itself is the process of forming the joint venture, and by thoughtlessly ignoring the areas of (A)' and (B)' in Figure 4, or bypassing cannot form a joint venture. The questions asked to the partners would be; what is the best thing to do at the site, and what can the inroad enterprise contribute? At the stage of inaugurating the joint venture, there should be the results
of individual feasibility study (F/S) of respective partners made available regarding the points such as; to what extent can it be understood, or to what level would be satisfactory. The problem is how to actually materialize the F/S results within the joint venture. For this purpose, it may be necessary to deepen the partner's mutual understanding within the flow of the realistic time.

[V] At Closing

The concept showed in Figure 1 is not considered to be applicable necessarily only to international joint venture. It would be necessary even in the case of making overseas inroads with 100% investment to have the same basis of thinking. In case of international joint venture, by the existence of the local partner whether you like it or not you are only placed in a situation where conflicts generated between each partner must be dissolved. Although when you have participated at the site with 100% investment, it may be necessary to realize that the home country's way of thinking which would pass in the extreme case would only be the measurable parts in Figure 1.

An Islamite example was presented before, but it doesn't matter whether any country or any race, there is a social standard fostered in that country. It is difficult to establish an enterprise without understanding what are the social standards. There should be a meaning in its own way of doing things at the site. The background could be rooted in a natural condition such as climate and natural features, or it could be some sort of a racial dignity lasting for some thousand years. Without understanding these, it is not desirable to bring in the home country style business management in the shape of saying that this is the best would be rather dangerous. At this point in time, in the aspect of economical rationality this may be advantageous but in the long run, it is not always that simple to determine what is the best. By trusting each partner and understanding one another, and by reducing the repetition of trial and error as much as possible would be necessary to lead the joint venture to success.
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When respective partners exist as an enterprise of a comparatively high cultural level country, it is expected that conflicts within the joint venture are less by comparison. This is because it can be considered that there are relatively more chances of understanding each other at elsewhere. Accordingly, when establishing a joint venture by associating with a local partner at a low cultural level country, it can be easily expected that there could be many conflicts. In such a case, the importance of piling up the factors illustrated in Figure 1 should be increasing more and more.

The structure shown in Figure 1, only illustrated the work of simply piling up the factors. The problems such as; what happens to the weighing of respective levels, or what happens when the total height of the cone changes, or what happens when the spread of the base changes, or are the items of the component factors sufficient or not, are still not studied. Besides, clear definitions in regards to the component factors in itself are avoided. These problems are still for the future assignment. The purpose of this article was to "propose" the problems which should be considered in order to make the international joint venture successful.

Note:
*This article was dervied from the studies made in the business management in the form of an international joint venture while dealing with the merger and acquisition activities at overseas of Japanese enterprises.
*This article enunciated the studies and developed the author's opinions throughout, thus references in particular were not used.