

論文

# Features and Roles of International Joint Ventures as an Entry Mode

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Abstract:

This research investigates features and roles of the international joint ventures (IJVs) as an entry mode. We studied IJVs from various viewpoints, and we clarified and highlighted their characteristics to a certain extent.

Keywords

International joint ventures, globalization

## 1. Introduction

There are several reasons why companies must adapt to globalization. They may want to expand their markets overseas because of shrinkage of the local market. Also, they face difficulties in their limited corporate activities. Their customers may have moved their production sites overseas. For example, after a plaza agreement in 1985, companies, such as automobile companies, transferred their production sites overseas. Japanese companies adopted global marketing and commenced procurement, production, and selling in the most suitable sites. Within the globalization movement, international joint ventures (IJV) were adopted as an entry mode to overseas markets.

What type of company activity is an IJV? IJVs involve individuals, companies, or governments from multiple countries who invest and manage the entity. The objectives of these actors are complementarity or navigating the political landscape of for the country they wish to enter. Conflicts among these partners are typically caused by dividend distribution or management control.

IJV are just one of the entry modes for entities intending to head to overseas markets. A wholly owned subsidiary (WOS) may not be permitted in a specific industry in accordance with the overseas countries' laws or rules, such as foreign investment restrictions. Alternatively, one partner may have limited resources, such as marketing information and channels. In such cases, an IJV is an effective entry mode. An IJV consists of two or more companies. Thus, the risk is relatively reduced for a single company. However, conflict occurs easily because multiple partners with different objectives and backgrounds, such as business customs and context, come together. Generally, partners tend to take better positions than the others, and attempt to take more than half the investment ratio to be the major holder. The author also experienced such conflicts during the process of an IJV and faced difficult negotiations with the partner until the investment ratio was finally defined. However, after the negotiations, every other process was done smoothly by each partners' cooperation. In this paper, we study and consider the features and roles of the IJV as an entry mode.

## 2. Advantages and disadvantages of IJVs

Asakawa (2011) noted that the advantages of an IJV are access to the local information and know-how, decentration of risk and cost, and countermeasures against the local government's restrictions. The best advantage of an IJV is the complementation of management resources. An IJV creates value for the parent companies, resulting in a positive, rather than a zero-sum game. The quality of management that resource partners provide is a key part of being a positive sum game (Kumar, 2010). Therefore, when the quality of management resources is poor, expecting the success of an IJV may be futile.

When a Japanese company entered into Philippines through an IJV, the advantages of an IJV effectively functioned as indicated in Asakawa (2011). The Japanese company left all the negotiation and application to BOI (Board of Investment), and marketing and sales in the local market to the partner company in the Philippines. Instead, the Japanese company took charge of production, including technology transfer. The disadvantages were technology leak and incomplete management control. The said technology leak was troublesome for the partner providing technology. Even if a non-disclosure agreement was made among the partners, the technology leak could not be protected completely. It was impossible for one partner to provide technology while watching the other partners' employees for 24 hours. When employees are transferred to another department or resign, the technology equipped to the employees is automatically released outside the IJV. If a technology is black-boxed, the technology leak may be protected at a certain level. However, in most cases, an IJV should accept the risk of the technology leak to some extent.

Typically, when a Japanese manufacturer enters other Asian markets, by observing the exchange pattern of resources. The Japanese manufacturer provides technology to its partner, whereas the partner provides marketing know-how, sales channels, etc., in the local market. For example, Research and Development (R&D) was involved in the contract of the IJV when the author participated in establishing the IJV with the company's partner in the Philippines. The said involvement of R&D has great significance

to the local partner receiving the technology. If only production technology is attached to the IJV's contract, the local partner will absorb the technology completely in the future. However, when the Japanese company's technology deteriorates and becomes worthless someday, the IJV's technology level may be inferior in quality and become uncompetitive. However, if R&D is included in the contract, new technology, or revision of the existing technology, may be provided to the IJV. In other words, the local partner does not need to proceed with R&D by themselves, and the related cost is saved. Moreover, the local partner can utilize the name value of the Japanese partner for advertising. When the local production line stops or requires troubleshooting, the IJV can receive technical advice or troubleshooting measures, or even special technicians, from the Japanese partner company. Thus, the IJV enjoys such technical assistance as insurance.

### 3. Positioning of IJVs

We herein outline the positioning of an IJV through relations such as an IJV or alliance. The positioning of each partner is categorized in accordance with their investment rate, as indicated in chart 10-1. Onozaki (1989) categorized 10% to 20% as a stage of investment alliance, over 20% to 50% as a stage of IJV, 50% to 100% as a stage of acquisition, and 100% as a merger. The degree of spending investment can indicate the relationship between investment alliances and mergers. The dispersion of risk is the same. In chart 10-1, the right dotted line shows that the degree of ownership and commitment increases with the investment rate. We can say a similar thing about the dispersion of risk. In other words, the process from a joint venture (JV) to a merger enhances ownership and commitment. However, the advantage of a JV, i.e. the dispersion of risk, is lost at. In addition, each relationship changes often after contracts. We observe the fluctuation of the investment rate often. As far as the author observed, cases maintaining a stable investment rate are quite numerous. Almost all IJVs change the investment rate as the entity grows. However, some IJVs dissolved the IJV agreement and the Japanese manufacturers exited from the market.

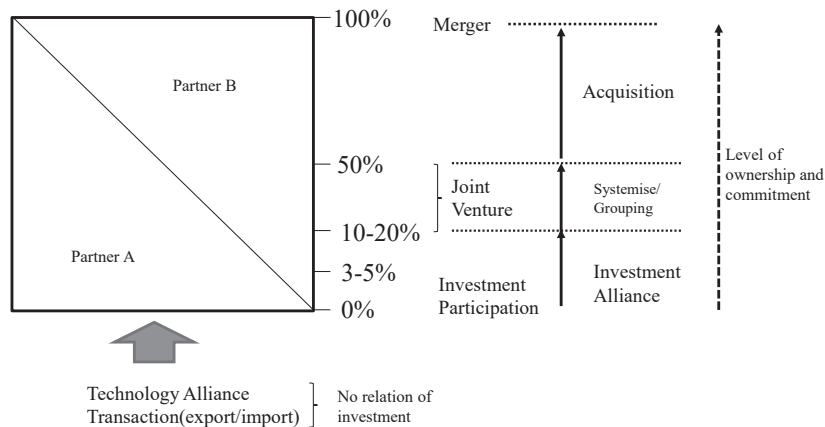


Figure 3-1 Investment rate and management  
 Source :Tsuneo Onozaki, "A Scenario for the Corporate Growth"(1989),  
 Reprinted and revised by the author.

#### 4. Choice and relationship of partners

We herein consider the process of establishing an IJV and its relationship with partners. It is rare that partners of different countries establish an IJV in a short time. Various processes and applications are required to establish an IJV. In particular, the choice of partners is a key factor to success. An IJV is often taken as a marriage. Harrigan (1988) equated an IJV as a shotgun wedding. The shotgun wedding is an IJV established by top management with a feverish dream.

However, managers in charge of actual assignments recognize it as an unholy marriage. Harrigan (1988) expressed the shotgun wedding as the management layer in the temperature difference, for joint management with the real practitioner, precisely. Those who have such experience may understand the shotgun wedding very well. An IJV and marriage have a similarity in their features and processes, and are quite humanlike. Therefore, partnering on the process of an IJV is very difficult. There may be a hard negotiation emotionally during the generation process of an IJV between partners in technology alliances and overseas transactions without investment relations, as indicated

in chart 101. However, through such tough negotiations, the partners can understand each other and a trusted relationship between them may be created. It is important for the partners to recognize the differences in each other's culture and customs. However, when the difference is too big, it is very difficult for one partner to induct the other partner. Therefore, it takes a longer time to establish an IJV, in case the partners have no relations such as transactions.

Compared to the said case, it takes a longer time to recognize other partners instead of facing less risk in the process of an IJV. Even if an IJV is established through such a complicated process, there still may be problems and conflicts among the partners. The differences in the partners' customs and corporate climates may create such conflicts or frictions in the management of the IJV. There is a favorable atmosphere among the partners in a fresh mode at an early stage of the IJV and they tend to cooperate with each other. Thus, during the early stage of an IJV, the partners may relatively maintain good management. However, after several years, there will be mannerism among the partners. This mannerism may sometimes trigger an opportunistic behavior. An IJV is more fragile than M&A and WOS, and more unstable in view of continuity because of the outbreak of conflicts (Ishii, 2009). An IJV is based on a jointly run business and easily generates friction. Hirano (2007) indicated that an IJV is an alliance organized by more than two individual companies, and the relationship is unstable.

## 5. Choice of IJV or WOS

When companies enter overseas markets, they must consider the choice carefully. The number of WOS entered overseas markets was 162, and the number of IJVs was 55. The number of WOS is far higher than that of IJV (Toyokeizaishinposha, 2020). Likewise, more companies tend to choose WOS because WOS can control its local company more efficiently. In addition, in recent years, many companies have invested in overseas countries from neighboring countries by their own overseas branches. This is one method of establishing networks in neighboring countries as a worldwide strategy when companies proceed with globalization. This case is suitable for collecting local

information on the candidate site. They are the same groups and conflicts are difficult to occur.

The choice of IJV or WOS is subject to the characteristics of each industry. When a company heading sales aggregation expands the sales channel, the choice of IJVs is preferred. However, in the case of a company heading technology integration, WOS is preferred. When a company is heading technology integration and they expand their production and sales to overseas markets, the choice of WOS is preferred (Ito, 2007). In any case, the choice of IJV or WOS is based on whether the resources required for entry are sufficient or one should rely on their partners' resources. In the latter case, complementary management resources among partners are more rational.

It seems that the entries by WOS has recently gained more attention than the entries by IJV. We researched the existing situation of the choice of entry mode in the KAIGAI SINSHUTSU KIGYO SORAN 2020. We focused on data from 1987 and 2019. In 1987, the entries by WOS were 252 cases, while those by IJV stood at 237. In 2019, the entries by WOS were 162 cases and those by IJV were 55 cases. Thus, the number of entries by WOS is about three times more than that by IJV, as we presumed. Nowadays, the environment of entry by the WOS is being maintained because of the relaxation of foreign capital regulations and the progress of globalization in the world. However, even now, about one-third of the companies choose IJVs. Thus, we should recognize the importance of IJVs as an entry mode in accordance with the objectives or environment in the country to enter.

## 6. Conclusion

An IJV is an entity composed of a human organization, and various things have occurred. We presume that all the things that disturb the management of IJVs cause conflicts. A relationship of mutual trust is a key factor in suppressing conflicts in IJVs, and managing them stably. Rousseau et al. (1998) defined trust as: "Trust is a mental condition composed by intentions that receive others' weakness, which is based on a

positive expectation.”

What kind of processes are involved after the construction of this relationship of mutual trust? Mayer et al. (1995) indicated that the relationship of mutual trust enumerates three factors: ability, goodwill, and integrity. However, the last two factors, goodwill and integrity, are difficult to judge quantitatively. Furthermore, it is almost impossible for the parties concerned to perceive them accurately unless they have no opportunity to access each other. Originally, goodwill and integrity were established and accumulated among the parties gradually. It takes a long time to build and is difficult to establish. Through the author's experience of IJVs, these three factors were established by the cooperation of the partners. Among the three factors, ability is relatively easy to recognize among the partners. The local partner's ability of technology or marketing and sales activity in the local market can be evaluated to some extent in the feasibility study before the IJV is established. In particular, technology can be evaluated quantitatively to a certain extent and a relatively large part of the technology is visible. Therefore, ability, as a complementary resource, will reduce with time, and the initial objectives of the IJV will fade gradually. Furthermore, it may endanger the mutual trust of partnership.

Partners should, therefore, keep updating and brushing their ability as complementary resources that can be evaluated mutually. When entering a foreign market, the company should care not only about the relationship with the local partner, but also acceptance by local consumers. A management philosophy of Oumi-shonin (oumi merchant), “Sanpo-yoshi,” is often quoted as a method of market entry. Oumi-shonin entered each market all over Japan from their base, the Oumi area of Shiga prefecture in the Edo-era, successfully using the Sanpo-yoshi “Jibun-yoshi” (good for myself), “Aite-yoshi” (good for you), and “Seken-yoshi” (good for society). We presume that companies entered foreign markets based on the Sanpo-yoshi regardless of consciousness or unconsciousness. In this paper, we studied IJVs from various viewpoints, and we clarified and highlighted their characteristics to a certain extent.



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