JOINT VENTURES OVERSEAS

A Guide

Fox Jones & Associates

TABLE OF CONTENTS

INTRODUCTION

By way of explanation

A joint venture is a form of direct investment in which two or more firms jointly own and operate a business. Successful marriages, as is generally recognized, are difficult to build and sustain; but they can be immensely rewarding. So it is with business joint ventures. They' require careful preparation and constant nurturing if they are to fulfil the hopes and expectations invested in them. This is especially true when the partners are from different countries because each will have its own laws regulations, customs and values, all of which affect the way business is conducted.

There is nothing new about the idea of joint ventures, but only in recent times have they assumed any significance as an alternative to 100% ownership of a foreign investment. Partly this is because many governments in the developing world now encourage the participation of local entrepreneurs in new industrial enterprises even when the initial impetus comes from abroad; and partly it reflects a recognition on the part of overseas investors that there are very significant advantages to be gained from having local partners.

The business world wants and needs industrial partnerships; and a failure tp recognize this and to respond simply opens the door for competitors to monopolize the opportunities. If we wish to secure a future for our goods and services in such markets, then it is important for us to adapt our commercial strategies to this reality.

Undeniably, there are pitfalls associated with international joint ventures. Establishing them can be costly in terms of time, and often also in terms of cash. Seemingly intractable misunderstandings can arise between partners; unfamiliar business practices can appear hopelessly frustrating; and local economic conditions, unless they are well understood, may have a critical impact on even the best–prepared financial projections. Our purpose in writing this booklet is to show how, with a degree of careful planning, these pitfalls can be avoided.

Our first hope is that you will find the advice here useful in planning an overseas investment. This is not, however, an all–encompassing textbook. We doubt, in fact, that one could be written given the many different countries and environments that such a work would have to address. We prefer to think of it as a guide to action and a basic checklist of factors to take into account in studying a joint venture opportunity; and we have tried to make it as readable as possible without sacrificing essential detail. If we have also succeeded in conveying a little of the excitement and potential that foreign ventures offer to dynamic Canadian firms, then so much the better.

JOINT VENTURES IN CONTEXT

A Dual Perspective

Partnerships take place only when the parties involved perceive advantages to themselves. Mutual self–interest is the key to success. This may seem obvious; but in the early flush of discovering a profitable business opportunity, it is frequently forgotten. A common assumption made by many executives new to ventures beyond their own borders is that there is only one way of doing business – their way. Not surprisingly, this view is not shared by the rest of the world. Westerners, in fact, can be sure that when they encounter a foreign entrepreneur, they will be in the company of someone whose success rests on an equal level of skills and energy as their own. And he/she may well be operating in an environment that is much more complex. In many developing countries, for example, it is not enough to be skilled in conventional business techniques, one may also have to cope with astronomical rates of inflation, constantly fluctuating exchange rates, and political instabilities. These are important skills, just as important in forming a joint venture as more conventional inputs of technology and know-how.

Both sides, therefore, need to respect each other's abilities and achievements, and recognize that they have much to learn from each other. And both have to compromise in terms of the way they will work together and share the responsibilities and rewards of the enterprise.

What are the advantages of International Investment?

With very few exceptions, firms investing in countries will be seeking to do one or more of the following:

Penetrate new markets
Often a local investment will give a foreign firm preferential access not just to a single national market but to a whole regional economic grouping such as the Caribbean Common Market (CARICOM), MERCOSUR in South America or the Lomé Convention for Asian Caribbean and Pacific (ACP) States.

Capture resources
Many developing countries are prime sources of raw materials some of which can be produced much more cheaply than at home.

Jump import barriers
Sometimes straightforward exports to a major foreign market are uncompetitive because of local customs duties and other barriers to entry. Governments frequently facilitate such restrictions in order to promote the development of local industry and employment. Alert foreign firms that choose to invest in local facilities can benefit from trade barriers by gaining access to a domestic market.

Lower production Costs
Many developing countries have skilled labour as well as raw materials available at a fraction of the cost in the West. This is a notable advantage in the manufacture of products requiring high levels of labour.

Are there disadvantages?

Yes: and they have to be taken seriously. Among the most frequently cited are:

The level of risk
There is no doubt that investing in a foreign country usually means working in a relatively and sometimes an extremely unfamiliar environment. Though often enjoyable this is never easy. Controlling the operation may be more difficult and problems of profit remittance, fluctuating exchange rates, and high local inflation may add to the complexities of the venture.

Exposure to changes of government policy in the host country
A change in government policy can mean, for example, a new attitude towards foreign investment, new taxes, restrictions on remittances etc. It is worth remembering that our own government's policies also change and not always to the benefit of business; although in some developing countries general socio–political instability undoubtedly adds to the degree of risk.

Loss of a potential export market
For most firms this danger is more imaginary than real. Firms lose export markets because others have seen the potential to manufacture locally. If the opportunity exists, someone, sooner or later, will take advantage of it.

And a Joint Venture?

Subject to the laws of the host country, it is perfectly possible to go it alone. But the risks are higher and so are the initial costs of entry. Among the most significant advantages of forming a partnership with a local enterprise are:

The local knowledge of the partner
He/she will bring to the venture a wealth of expertise in dealing with government banks and labour, and in developing the domestic market.

Increased ability to supply the government and state–owned enterprises
Many governments give priority to suppliers with significant local ownership even in cases where a foreign supplier might have an edge in quality.

Access to official incentives
Again incentives are frequently reserved for nationally–owned firms.

Sharing the initial risks
A significant factor for many investors!

Creating a spirit of goodwill
This can work favourably should questions be raised about the place of foreign firms in the national economy of the host country.

What about the negatives?

We have found four main ones all of which, as we will discuss later on, are generally surmount able without difficulty:

A potential loss of control of the operation
In practice, it is very rare for a joint venture partner to feel that the business is beyond his control provided that ground rules for management have been laid down at the beginning of the partnership.

Disagreements with the partner
Serious disagreements may damage the enter prise. While this seldom happens, it is essential to establish procedures for dealing with conflict that will satisfy all parties.

Sharing profits and technical secrets
Firms that are satisfied with the level of contribution of each partner rarely have difficulty with these questions. Those that have developed a proprietary technology, however, may be more reticent. Joint ventures have to be launched with enthusiasm and with a full commitment to sharing knowledge risks and rewards. Where such enthusiasm is lacking it is well not to proceed.

Threats to export markets in third countries
This can be difficult. In some countries it is now unacceptable to impose restrictions on national firms that will limit their access to export markets. Moreover, many foreign partners will wish to build exports and, in developing countries, may be motivated to do so by attractive government incentives. Some creative thinking may be required to resolve this issue.

The Host Country View

Most executives prospecting for a joint venture or other direct investment abroad have a good idea of what they are looking for; but they may not be aware of what a prospective partner's needs will be. Yet the latter will also perceive advantages and disadvantages to embracing a foreign firm. In many cases there may even be a fear of being taken over by aggressive foreign firms able to field impressive cadres of engineers and executives and to wave sheafs of dollars at every obstacle that gets in their way.

Advantages...

Here are some of the benefits a host country partner will be seeking:

New technology and know-how
An "investing" executive may consider this as his/her firm's most precious asset. Perhaps it is. But some joint venture partners may view the acquisition of technology as less important to them than some of the other benefits listed below.

Access to patents and trademarks
Capital
Export competitiveness
Access, through the experience of the foreign partner, to world markets

...And Disadvantages

The local firm will also be aware of certain dangers in becoming associated with a foreign investor for example:

Lack of control of the operation
This fear is, of course, shared by both sides.

Dependency on the foreign partner for new technological advances
In the mind of many executives in recipient countries is the thought that commitment to an arrangement in which a foreign investor supplies technology may mean that Research and Development will not be conducted "at home", and the joint venture will, therefore, never be able to compete on the world stage.

Difficulty of competing with the partner in export markets

The need to share profits
We can see that there is potential for disagreement and conflict in the differing needs of joint venture partners. Provided that both sides have a good understanding of the other's viewpoint, differences, even of a complex kind, can usually be resolved. In later sections of this booklet, we point out some specific ways in which this can be achieved.

Who offers what?

To summarize, let us briefly list the benefits that each side can most often be expected to bring to the table:

Foreign Firm	**Local Firm**
- Capital	- Capital
- Technology	- Market Knowledge
- Patents	- Labour
- Management	- Land and Buildings
- Trade Marks	- Contacts/Influence
- Export Markets	- Local Management

Of course, every partnership has its own unique characteristics. Occasionally, for example, we have found that the foreign partner's technology is at least as advanced as that of the North American/European associate and that there is scope for a two–way exchange of knowledge. In the more sophisticated developing countries, this is likely to become a trend.

HOW TO START

Three requirements are critical:

Good information
without which any investment venture would be purely speculative.

Plenty of time
and willingness to spend resources on research and general prospecting.

Expert professional advice
from people with experience of business in the target countries.

The need for time is self–explanatory; but what about the other items? How do we start to identify where the best opportunities lie? Who can give reliable advice?

Choosing a country

Obviously we can only furnish limited details here on specific sources of information and expertise. Our principal concern is to suggest a cost–effective approach which will quickly permit the newcomer to assess whether and where profitable foreign investment potential may exist. Answers to some of the most important questions, incidentally, need no research at all but simply an analysis of the firm's own activities.

"We would like to get into Latin America; but how do we start?" Questions of this kind are among the most frequent we receive as consultants. This is scarcely surprising. Newspapers business journals and government reports constantly urge entrepreneurs (quite correctly) to take advantage of overseas business opportunities. But the choice of countries and regions seems bewildering. To increase confusion, popular enthusiasm for certain regions waxes and wanes. At the time of writing, Asia is in vogue; a few years ago, the Middle East was "in"; before that it was Latin America.

It is important to be alert to fashions of this kind because they generally reflect something about current levels of business activity in various areas of the world. Your firm's best interests, however, may lie elsewhere. Regardless of what the government or the newspapers are saying, our first advice, therefore, is to address some basic questions. Here they are:

Where do you currently export...
...and which countries are major importers of your kind of product? You will, of course, know the answer to the first half of this question, and you probably know the answer to the second part. Many countries, and especially those of the Third World, desperately need to increase their productive capacity in order to create employment. Sooner or later they will want to produce at home a large number of the goods and services they currently import. If you are in the forefront of this trend, you may well gain a solid foothold in some exciting markets from which you might otherwise be

excluded. We are not suggesting that firms should undermine their own exports, merely that they should be aware that importing countries can be prime targets for local investment in production facilities.

From which countries do you currently import?
Do you need to secure a source of supply for your raw materials? Which countries are the main suppliers? Which have the best reserves?

What is your purpose in seeking to do business abroad?
- to penetrate the domestic market of a host country?
- to produce abroad for importation into your home market?
- to export to other markets?

Clearly if you are interested in tapping foreign domestic markets for your joint venture, you should look first at countries with large populations and/or a relatively large GDP per capita. If you are going to export from the host country, then your concerns will be with raw material sources, local infrastructure, transportation and labour costs.

What are the main regional economic groupings?
e.g. ACP, CARICOM ALADI? What could they mean to your business?

Some telephone calls and a few hours spent in a good library are sufficient to answer all these questions.

From this first exercise you should now have, at least, a short list of countries that appear to offer good prospects; and perhaps you have already identified a target country. More detailed work is now required.

Establishing initial market potential

Before taking a step outside your home country, it is possible to collect a great deal of useful and quite detailed information about business in other countries. Of particular value are:

Government Sources
All western governments have International Trade Data Banks based on own and United Nations sources. These usually provide import/export breakdowns by commodity at the 4–digit level using the International Standard Industrial Classification. Some governments will furnish material to your own specification including countries of origin and destination by product group. Specific country reports are also often available.

The U.S. Department of Commerce
The U.S. Commerce Department publishes country–by–country market reports. These are relatively easy to obtain and often contain specific details on sectors and individual products.

Specialist Private Sector Organizations
Valuable help can be obtained from organizations such as the local World Trade Centre, specialist chambers of commerce,exporters and importers associations, the foreign

departments of national and international banks, and consulting firms.

Diligence in searching for information at this stage will save much time and frustration later. A notably important issue is the policy of each target country towards foreign investment both as a whole, and in your sector in particular. Most developing countries reserve certain strategic sectors for nationals; and many have regulations concerning the maximum amount of foreign participation allowable in a new business.

Political Questions

In addition to regulatory statutes, foreign investment projects in most developing countries require formal approval, generally from an appropriate ministry, based on what is considered to be the overall desirability of the project. At first glance, the idea of "desirability" may seem vague and potentially subject to the whim of local officials. In practice, it is possible to assess at a very early stage whether a project will be acceptable. Again, most of the questions can be answered fairly easily:

Will the products or services contribute to the host country's exports or help to substitute for imports?

Will the project be contributing to national goals as outlined by the government?

Are the products or services likely to be considered socially important?

In the domestic market, for example, food processing is more likely to be acceptable than the manufacture of perfume; capital and intermediate goods will generally be preferred over consumer goods.

An affirmative answer to at least one of the above usually means that the project is worth pursuing. Less positive, however, would be affirmative answers to any of the following:

Will heavy imports be required on a regular basis?
Heavy dependency on imports will not generally be regarded favourably unless offsetting exports are included in the project.

Will you have a monopoly in the local market?
Monopolies are sometimes inevitable in developing countries, simply because some projects are bound to be of a pioneering kind. However, monopolies in consumer goods run the risk of becoming unpopular even if they are initially approved.

Will the projects displace or compete with existing national firms?
This is a delicate matter for many countries. If there is any suggestion that local firms may be damaged by your entry into a joint venture, you should proceed with caution.

Fieldwork

You will now have narrowed your search to one or two countries, and probably will have identified a prime target country. This is the moment to plan a working visit. As with so much else in business, good planning is the key to success. Unless you already have considerable experience of the country, and are familiar with its markets, your first visit will be largely exploratory; and while you may be received with great enthusiasm, you should not expect to conclude any deals or even to undertake an in–depth market study. These things will come later.

A first field trip should aim, primarily, at two goals:

Obtaining a good overview of the country, its markets, business methods, culture, and receptivity to your kind of product

Among the items you will need to cover are:
– Banking facilities
– Infrastructure such as transportation, energy, water, sewage, etc.
– Available industrial locations
– Investment incentives and their applicability to foreign firms
– Government attitudes and policies towards foreign investment
– Exchange controls and regulations concerning expatriate employment;

Meeting potential business partners and others, such as:
– government officials
– banks
– business associations
– accountants and corporate lawyers who may have an important influence on your future activities.

Searching for firms and individuals with whom you can do business is obviously paramount. If your background work has been reasonably thorough, finding potential partners should not generally be too onerous. The organizations you will have already consulted can provide substantial assistance in identifying whom you should be talking to in the target country. Of special importance is the help that Foreign Service departments can offer through embassies and consulates. Trade commissioners stationed abroad can furnish up–to–date information on local conditions and, even more important, set up a program of business appointments. Remember, if they are to perform such services successfully, they need adequate notice of your visit, preferably by telex; and they also need a reasonably detailed account of the purpose of the trip, its duration, the kind of people you wish to see, and what you hope to achieve. Adequate notice means at least one month.

Using Consultants

Executives visiting and seeking to do business in a country for the first time often hire the services of consultants with knowledge of the local business environment. Consultants can be of enormous value in making contacts and furthering the progress of a project; if they are professionally competent, and have proven expertise in the target country, they can save you much time and money; and they can make things happen much faster than would otherwise be the case. However, choosing a first class consultant is not always easy. Very few consulting firms have hands–on geographical expertise. Chambers of commerce, trade and industry associations, and firms that have already conducted business in the target country will give help in identifying consultants on an informal basis. If possible, discuss your needs with two or three consulting firms and ask them for written proposals outlining how they can help you achieve your objectives, their qualifications, and the costs involved. Do not be impressed by firms claiming geographical expertise on the basis of their "associates" in the target country. International consulting associations tend to be very loose arrangements and there is no guarantee that the overseas associates assigned to help you will be sensitive to your needs or even as competent as you would wish. Major points to look for in a consultant are:

A quick understanding of your objectives and a willingness to learn about your firm.

Clear familiarity with the target country including linguistic ability if appropriate.

Knowledge of sources of financial and other assistance in your own country.

Presentation of a crisp, clear proposal which should include resumes of all personnel who will be involved in the project and a statement regarding the proposed role of each.

Avoid consultants who claim to be able to use their connections with ministers, top bureaucrats, or other elites of the target country, on your behalf; they will rarely, if ever, be able to deliver on their promises. Look for professionalism and reputation, just as you would in your other business transactions.

Follow-up

The first field trip is a critical stage. If the results are positive, and you have identified one or more potential partners, you are in a position to shift gear. So far, expenditures of time and money should have been fairly modest. From here on, the project will demand considerably more in terms of both human and financial resources. Invariably, it will be necessary to conduct a feasibility study, the output of which should be an action plan for establishing, starting–up, and operating the new business. In addition to a thorough market and operational analysis, and detailed investment, profit and cash flow projections, the feasibility study will have to deal with a large number of less immediately obvious issues. In the following section we outline some critical questions that need to be answered specifically in relation to the establishment of an overseas joint venture.

ESTABLISHING A JOINT VENTURE

When searching for a partner or partners, it is worth remembering that there are a number of alternative possibilities:

Other firms from your own country
This can be especially attractive if the two firms have complementary skills or technologies.

Other foreign firms

Private local firms

State corporations

Partnerships between more than two firms can work very well although they do, of course, dilute the equity holding of each member. Whatever the form of the joint venture, it is crucial to weigh very carefully whether a proposed partner has the capabilities and attitudes you are looking for. We recommend:

Obtaining an independent assessment of the partner's financial and business situation
This usually requires hiring the services of a reputable, local firm of accountants which can generally be done at a modest cost provided that you state very specifically what information you need.

Trying to associate with firms of a similar size to your own
Where there are large disparities in the size of partners, a venture can still succeed; but the smaller firm always runs the risk of being overruled by the financial and marketing power of the larger.

Ensuring that both sides have similar medium and long–term goals for the new venture
It is especially important to ascertain the capacity and willingness of each to finance future growth.

Financial matters

Paying for equity

For firms with limited resources, paying for equity
can be a difficult issue. It is, of course, possible to pay for equity in a number of ways; for example, with machinery, patents, land, buildings etc. But some liquid funds are almost always required as well, and it is not uncommon for each side initially to expect the other to provide them. On the whole, in cases where the partners expect to have an approximately equal shareholding, we advise firms against insisting that the other partner should pay a disproportionate share of cash for his equity. Such an attitude is likely to be viewed with suspicion; and in our experience it seriously diminishes the chance of concluding a successful joint venture agreement.

Paying for part of the equity with goods rather than cash is attractive to most firms; but placing a value on the goods is not always easy. Imported machinery and forms of intellectual property such as patents are often assigned an official value by the host government that may or may not be in accordance with the supplier partner's own valuation. In such cases, the official valuation is the only one that counts.

Debt financing

Subject to national regulations on debt/equity ratios, it is perfectly acceptable to finance part of the new venture's initial capital and most or all of the operating capital requirements through loan financing. Avoid, if possible, incurring dollar–denominated debts unless you are willing, and have the resources, to hedge against relative shifts in currency values or intend to export a large proportion of your output in exchange for hard currency. Local borrowing, despite what may seem to be horrendous interest rates, is usually safer.

Profit distribution and remittance

There are many ways to receive profits from a foreign enterprise. Here are some examples:

Dividends

Interest on loans made to the venture

Royalties on patents and transferred technology

Management fees

Fees for export or import marketing services
For example, a North American partner may take responsibility for marketing the joint venture's output in the NAFTA reagion and be entitled to a fee based on sales.

Payment in goods and services

Retention of foreign sales income

In turn, each of these broad methods has available a number of techniques of calculation. Here, for example, are some of the ways in which royalty payments can be made:

Fixed sum based on units produced

Fixed sum for each unit sold

Percentage of gross selling price

Percentage of net selling price

All of these can be subject to:

A minimum or maximum per year

A decreasing percentage as sales increase

A remittance gross or net of local taxes

Some methods of taking profit from a venture are not acceptable everywhere; and many countries have restrictions on the amount of profit that can be remitted abroad in any year. Foreign exchange controls, corporate and remittance taxes, the existence of a double taxation agreement between the host and recipient countries, and compulsory reserve requirements can all influence the level of funds that can be withdrawn directly from a foreign enterprise. Be sure, therefore, that you have a good understanding of the legal position on profits. In order to avoid future disputes and misunderstandings, it is essential for the partners to agree at the outset on the way in which each will draw earnings from the venture.

Equally important, when deciding on profit distribution, is the need to take account of the new venture's requirements for working capital, expansion, acquisitions, asset replacement and retirement of debt. We recommend strongly that partners establish an approach to these questions at the outset.

Although tax and profit remittance regulations differ from country to country, in Appendix One we have provided an example of a profit calculation - drawn from a real case.

The question of control

Who controls the operation is an inevitable question in all joint ventures. As far as voting shares are concerned, the alternatives are:

Minority foreign.

Majority foreign.

50%/50%.

49%/49% with 2% accorded to a third party

or variations of this arrangement.

But voting shares alone do not necessarily indicate who has effective control. If, for example, one partner is the sole supplier of technology or owns the trademarks to be used by the new venture, then effective control can be exercised with much less than a 50% ownership. Overall, some of the most important factors to take into account are:

Relative shares in the venture's profits and responsibilities for financing growth.

Relative shares of the assets

Voting rights over:
– appointing directors
– profit distribution
– changes in structure or objectives
– patents and trademarks
– product quality

– global strategy.

Veto powers

Payments of fees for:
– licenses
– management
– directors
– special services such as marketing, auditing etc.

Host country laws on foreign investment
Some countries limit the amount of foreign ownership in a new venture to a fixed percentage of the equity.

Naturally, there is no single best way of deciding on all these issues; but it is important to be aware of them and to ensure that they are understood and discussed by the partners before final commitment to the venture.

Choosing personnel

As a general rule, we always advise firms to maximize the level of host country personnel both at managerial and technical levels. Good local managers will understand the rules of the game better than their foreign counterparts, and they will frequently handle staff with more competence. Goodwill is also created locally by demonstrating that the venture is a "national" business. As a rule, salaries and benefits should be as good as the best locally–accepted standards. In specific cases there may be exceptions to this, but it is wise to tread carefully when stepping outside the norms of established business practice.

Of course, technical and managerial competence varies in each country, and sometimes it is necessary to appoint expatriate senior executives. The qualities to look for in expatriate managers are:

Willingness to make a personal commitment to the host country
Executives who remain aloof from the country may survive well enough, but they will find it difficult to maximize the potential of the enterprise. We have encountered a number of expatriate company presidents who have never attempted even to learn the local language. We leave it to the imagination of the reader to assess how effective such managers tend to be.

People–oriented rather than task–oriented
Knowing how to motivate local staff – who may not respond in the same way as your own staff – is one of the keys to achieving high quality work and good productivity.

It is as well to recognize that expatriate staff are expensive. They usually have to be paid in hard currency, and require substantial expense accounts and special benefits such as housing allowances and school fees for children. This is an added incentive to use them sparingly.

The President

Who is to be president of the company? Here are some of the alternatives:

One president nominated by either firm and agreed upon by both
This is the simplest scenario and the one that, in our view, works the best.

Alternating presidents
each of whom has a limited tenure of office. This can work if, for example, two senior executives are available who work together harmoniously. In this case they would alternate as president and vice-president.

Joint presidents nominated by each side
Some ventures have tried this route; but it is supremely hazardous. Disagreements can be paralyzing.

Functional executives
Each takes responsibility for a specific area of operations and they work together as a corps of equals. Large organizations can sometimes operate in this way but the potential for damaging conflicts of aims and opinions is always present.

We generally favour a single president, if possible, either a local executive or an expatriate with substantial overseas experience.

Having made a case for employing local personnel, even in senior management positions, we should emphasize that the foreign partner must ensure that his/her interests are protected. For small ventures, the foreign partner will need, at least, to have independent local auditors and legal advisors whose responsibility is to provide reports on the venture at regular (say annual) intervals. In larger operations, if the president is a local national, we recommend that either the vice president or the financial manager should be appointed by the foreign partner.

Marketing

The major questions to be decided before start up are:

Who takes responsibility for marketing to third countries?
With some exceptions the foreign partner is generally more experienced in this area. But the issue is fraught with potential conflict because of the danger that the joint venture may compete and compete successfully – with the products produced by the foreign partner at home. It is crucial to reach an understanding on how export marketing is to be conducted. Local regulations may have an important impact: in some countries it is strictly forbidden for locally–based firms to sign agreements restricting their ability to export to other countries.

How are prices set and profits taken on trade between the local venture and the foreign partner?
Again, many countries have laws regulating intra-firm pricing; but on this issue the law tends to be much less effective than a mutually–agreed policy between the partners.

What will be the corporate image?
And how will it be maintained? If the image of one of the partner firms is to be used, it is wise to remember what that image represents. Quality, pricing, packaging, efficiency of service must all be maintained – or improved – in the new venture.

Plant and equipment

We generally advise clients to ensure that the condition of plant and machinery, even if second–hand, should be as good as would be expected in the developed world. The technological level is another question. In some countries, such as Brazil, Argentina, Korea and Malaysia, it is probable that the latest technology could be absorbed with relatively little difficulty. This may not be the case in some of the less advanced developing countries. Whatever decision is made on the technological level of the new plant, it is well to recognize that the issue can be politically sensitive. Some countries expect to receive only the latest technology and resent the idea of being recipients of outmoded methods. In other countries, influential thinkers hold that older, labour intensive production techniques are a more suitable means of creating employment and increasing local wealth. There are, of course, no final answers to this question.

When establishing a new plant, it is important to ensure that staff receive adequate training, safety procedures are in place, and steps have been taken to provide spares and maintenance for the equipment. Failure to attend to these issues has been responsible for many plant failures in the developing world.

Working in a different environment

"They have to do things our way if they want to do business with us." This idea, however expressed, is one of the most common mistakes made by executives who are new to international business. We call it cultural monotheism: the religion of "we know best". Reality tells us a different story. Most countries, in fact, have quite distinctive ways of conducting their affairs, and the astute foreign executive quickly learns that one of the secrets of success in international business is to understand how other nations work.

Among the most significant cultural items to be aware of are:

Attitudes towards work and achievement
In some countries, effective work is considered to be a team responsibility and not the result of individual effort. Rewards given for individual achievement can, therefore, be an embarrassment. In other cultures, the reverse is true: individualism is paramount and teamwork exceptionally difficult to achieve.

Concluding deals and contracts
North Americans and Europeans are used to making quick decisions and concluding deals on the basis of objective evidence, such as price and quality. In Latin America, product attributes certainly matter, but equally important, is the personal relationship established between the contracting parties. A Mexican, for example may expect to show you some of his country, take you to a couple of the finest restaurants in town, and generally demonstrate the qualities of local hospitality before even beginning to think about a business discussion. In many countries a signed letter of intent is of much less significance than a warm handshake.

Patterns of decision–making and authority
In some countries, the boss is infallible and it would be unthinkable to offer suggestions to him or to do other than acquiesce in whatever he might suggest. Directly asking employees about future strategy, therefore, would meet with bewilderment; and it is necessary to learn quite different techniques from those that would be appropriate in your own country for drawing on the skills and knowledge of staff.

Expressing disagreement
It is probably easier to offend people's sensibilities in this area than in almost any other. Learning how to say "I disagree" with politeness is an asset everywhere.

The role of government

All business conducted abroad has a political dimension; and foreign investment is invariably subject to formal controls and regulations. Before making an investment decision, it is essential to appraise the local political situation, especially in terms of current and likely future stability and attitudes towards foreign participation in the economy. Recent history has shown that foreign investment in certain sectors such as utilities, communications and extractive industries carries a higher–than–average risk of incurring political disapproval. In these industries, especially, it is important to ascertain the views not only of the government, but also of any powerful opposition groups who may be in a position to influence national policy.

Dealing with government agencies and bureaucracies can be taxing for any newcomer to a country. Often, questions that we may feel to be trivial can become tiresomely complex in other parts of the world. Newcomers to North America or Europe, however, may feel the same about some of our institutions. All government officials have regulations that have to be followed and methods of working codified by tradition and by the singularities of national experience. Our advice is as follows:

Be patient

Try to understand and address the government's needs

Be prepared to improvise and to modify plans if, by so doing, you can achieve your objectives without jeopardizing the viability of the operation.

Whenever possible use professional advisers to pilot the project through the bureaucracy

Obey both the letter and the spirit of the law

Try to address the government's priorities explicitly in your plans

Settling disputes

Disagreements between partners can usually be settled with minimal difficulty; and many joint ventures function with little or no friction among the owners. This is as it should be. Nevertheless, it is wise to agree with your partners on a set of procedures for handling disputes, should it prove impossible to resolve a contentious issue informally, or through the board of directors.

One way is to establish a Conciliation Committee consisting of professional advisers who are familiar to the firm. This tends to be relatively painless and inexpensive provided that all sides agree to abide by the Committee's decision. Beyond a Conciliation Committee, the only likely remaining recourse will be to the law, either through an appeal to an official judicial tribunal if one exists, or by initiating court proceedings. Either of these procedures would probably be disastrous to the joint venture; and with rare exceptions, the costs would greatly outweigh the benefits.

A FINAL WORD

Establishing a joint venture is time-consuming. Even when everything runs smoothly, it will usually take at minimum of 18 months from conducting an initial study to sealing an agreement and launching operations. It can take much longer. Joint ventures also require expenditures of money, and the exercise of patience and tact.

So why bother? The answer is that they make good business sense in many situations where "going it alone" would be more arduous and expensive, more difficult to manage, less competitive and even less profitable in the long term. For companies needing to expand at a faster rate than would be otherwise possible, a joint venture can often be the preferred vehicle; and this applies as much to large multinational corporations as to smaller firms.

For further information or advice, please contact:

Fox Jones & Associates
at:
54 Crofton Road
London SE5 8NB
ENGLAND, U.K.
Tel: (44) 20-7701-3107
Fax: (44) 20-7701-6918
europe@foxjones.com