

**MULTINATIONAL ENTERPRISES IN INTERNATIONAL EQUITY
JOINT VENTURES: EVIDENCE FROM BRITISH AND FRENCH FIRMS
IN EMERGING MARKETS**

Frank L. Bartels✦ - Corresponding Author

S3-B1C-94
Nanyang Business School
Nanyang Technological University
Nanyang Avenue
Singapore 639798
Tel (65) 7906256, Fax (65) 792 4217,
E-mail AFLBARTELS@NTU.EDU.SG

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ABSTRACT

This paper explores Joint International Business Associations (JIBAs) in the general operational form of Foreign Direct Investment (FDI) and specifically as International Equity Joint Ventures (IEJVs) in Emerging Markets (EMs) in Africa. It does so bearing in mind the political-economy of Lomé Convention relationships between the European Union and Sub-Saharan Africa (SSA) in response to three concerns. Firstly, the growing portfolio interest in SSA [Gettleman (1996); secondly, SSA's diminishing trade engagements with the world economy [Yeats et al (1996); Ihonvbere (1996)] and thirdly, the paucity of area studies in international business research involving Africa and Multinational Enterprises (MNEs). In particular, the paper examines IEJVs of British and French MNEs (EUMNEs) with local partners in Ghana and Cote D'Ivoire (the Hosts). The thesis of the paper is IEJVs display characteristics remarkable in spatial and temporal consistency. Differences in IEJVs between Developed Countries and Less Developed Countries appear cursory rather than fundamental.

INTRODUCTION

Increasing attention to research on the structure and control of co-operation, as opposed to competition, between firms has enriched international business studies [Buckley (1991)]¹. On one hand, research has been oriented by the eclectic theory of international business and transaction cost analysis (TCA). On the other hand, the study of JIBAs as interorganizational co-operation and co-ordination formalisms [Pfeffer and Nowak (1976, p. 398)], both national and international [Van de Ven and Walker (1984); Buckley and Casson (1988); Ring and Van de Ven (1992, p. 486); Glaister and Buckley (1994)], has concentrated predominantly on Developed

Countries (DCs) rather than Less Developed Countries (LDCs). The bias persists because of the increasingly influential world economic role of MNEs [Buckley and Casson (1976); Dunning (1981); Chandler (1986); UNCTAD (1993, 1995a)]; the stamp of the global ‘footprint’ of corporations (via financial and industrial intermediation across multiple political and economic frontiers)² in socio-economic evolution [James (1985); Lecraw (1983); Chhibber (1992); Beladi and Chao (1993)]; the compulsions of international management [Peters (1987); Handy (1989); Lorbiecki (1993)]; the generally poor macro-economic performance of SSA and very low levels of FDI inflows to the region which render it unattractive as an object of international business research³. This caesura finds expression in the following terms “countries classified as LDCs form an extremely heterogeneous group. Indeed, differences between the poorest (*SSA*) and the wealthiest⁴ (*S. E. Asian HPAEs*) are in some respects greater than between the wealthiest LDCs and many DCs ... Since the former are those countries with the lowest MNE involvement it may be asked why a focus on these countries is appropriate. One reason is that this low involvement itself merits explanation.” [Buckley and Casson (1991, p. 28)] In addressing this area the paper is of interest, and is an important contribution, in its own right. However, in taking the opportunity to make a comparison, when appropriate, with extant empirical literature particularly Killing (1983) and Beamish (1985), it provides a valuable longitudinal perspective to the study of IEJVs.

Constituents of the literature, however, are viewed by some as flawed. International Business research invites the charge that “there is still lack of conceptual integration and empirical corroboration.” [Macharzina (1991, p. 3)] According to Parkhe (1993a, p. 232) “current conceptual and methodological foci inhibit systematic study of crucial aspects of IJVs, resulting in serious theoretical lacunae.” This paper notes that a new focus on knowledge and information

communications, co-ordination, command and control system management, rather than ownership of location specific asset advantages is emerging [Oviat and McDougal (1994, p. 46, 56)].

INTERNATIONAL EQUITY JOINT VENTURES DEFINED

Within the Coasean view of the firm [Coase (1937)] an IEJV is a market moderating covenant to enable, via complementary assets committed to a purposeful but separate organisational entity [Harrigan (1984, p. 7); Lyles and Reger(1993, p. 386)], two or more firms to transact “strategic collaboration” [Halal (1993, p. 9)] across national political and economic frontiers, and independent organizational boundaries. As FDI is “squeezing all the rent ... out of a given advantage” [Kindleberger (1987, pp. 23-24)], the control of IEJVs through communications, co-ordination and command protocols [Geringer and Herbert (1989, p. 241] comprises - the focus of control, the extent of control and the inter-partner mechanisms of control within a multidimensional ‘IEJV space’ of co-operation and conflict [Wright and Russell (1975, p. 76)]. Thus characterized, IEJVs may include coalitions, franchising and licensing, distribution consortia, networks and - ‘the virtual corporation’ [Brandt et al (1993, pp. 36-41)].

LITERATURE REVIEW

The indeterminate complexities of organizations [Boulding (1956)] and business strategy, which defy simplicity and generalization [Shapiro (1989)], lead any rational behaviour paradigm in a dynamic model of business co-operation to straddle several (theoretical) domains. The persistence and growth of IEJVs, and their derivative ‘looser’ forms of alliance, suggest that benefits of reciprocal dependencies outweigh both disadvantages of interdependency and advantages of independent unidimensional operations⁵. Furthermore, by emphasising effectiveness rather than efficiency [Ring and Van de Ven (1992, pp. 485-486)] firms may

enhance competitiveness and market servicing performance in transactions involving intricacies of risk and trust⁶.

Within the several domains, firstly, IEJVs are not new phenomena [Meyen et al (1966); Reynolds (1984, p. 230)]. Historic patterns of world trade, in relation to international business, political behaviour and division of labour [Boddewyn and Brewer (1994)], have permitted JIBAs of various permutations to exist [Wilkins (1970)]. However, the variety of approaches⁷ to their study, typology and terminology is new. Secondly, differences in researches [Harrigan (1984)] elucidate conflicting inferences in the literature. Thirdly, polarization is inevitable given the difficulties of comprehensive data acquisition. In addition, the requirement for MNEs to articulate strategies for globalization, regionalization and localization [Dymsza (1984); Root (1984); Emmerij (1992); Halal (1993); Kobrin (1993, 1996)] implies that IEJVs in DCs and LDCs [Beamish (1985)], as well as between LCD's, in terms of location specific operations [Dunning (1988)], are likely to be different. Fourthly, definitions of IEJVs have divergent orientations: exchange of threat [Buckley and Casson (1988, p. 32)]; competitive advantage [Oviatt and McDougal (1994, p. 49)]; Williamsonian market failure and risk [Kogut (1988, p. 320), Ring and Van de Ven (1992, p. 487; 1994, pp. 91-93); Parkhe (1993a, p. 233)]; alliance and partnership [Harrigan (1984, p. 7), James (1985, p. 77), Cravens et al (1993)]; skills transfer [Wright and Russell (1975, p. 76)]; strategic defence [Vernon (1983), Morris and Herbert (1987) Shapiro (1989)]; and uncertainty and the entrepreneurial response [Spender (1993)]. Fifthly, Parkhe's (1993a, p. 236) view regarding the "lack of progress in defining and setting boundaries around core concepts" is entirely consistent with the assertion by Geringer and Herbert (1989, p. 245) that "no consensus on the appropriate definition of IJV performance has yet emerged. A variety of objective measures for IJV performance have (*sic*) been used". The reality is that "Cooperative

arrangements between firms of different nationalities are of many kinds, serving many purposes and encompass ... a variety” [Glaister and Buckley (1994, p. 34)].

Rationale for International Equity Joint Ventures

Reasons for IEJVs may be compacted into few motives and theoretical underpinnings. IEJVs occur because of their perceived inherent ability to satisfy certain conditions at macro and micro levels: (a) meeting national socio-economic-technological demands; (b) capturing competitive advantages of, and within, ‘value-chain’ economies of scale and scope; (c) selectively decreasing inter-firm dependency; and (d) circumventing, creating and/or exploiting structural and endemic market imperfections [Pate (1969, p. 16); Parkhe (1991, p. 581)]. Imperatives of national development and technology transfer have guided successfully governments to configure FDI reception regimes to prefer market access through JIBAs and IEJVs rather than independent Foreign Market Servicing (FMS) entry modes and strategies [Beladi and Chao (1993, p. 184); Haddad and Harrison (1993, p. 70); Kabirat and Marjit (1993)].

The intensifying technological nature of international sourcing, production and distribution channel management implies cost and risk reducing advantages through combinatory arrangements for assets of extended reach, oligopolistic structures and scale economies. Coincidentally the “fusion of know-how, experience and special working relationship of each of the partners opens up vast new possibilities and improves the chances of business success” [Meyen et al (1966, p. 21)]; and Vernon’s (1983) defensive rationale renders IEJVs particularly appropriate for new businesses [Stuckey (1983)]. For Small and Medium Sized Enterprises (SMEs) combining unique resources may be the only means to secure internationally sustainable advantage [Caves (1982); Stalk et al (1992)]. For larger firms, concentration in maturing industries serving declining markets and resultant intra-industry competitiveness [Gullander

(1976, p. 105)] increases pressures (from economies of cost reduction) for IEJVs. However, inter alia, endemic market imperfections, in particular, monopolistic-oligopolistic advantages, ownership advantages and firm specific assets [Lall and Streeten (1977); Dunning (1988)] (which are by definition internal to firms and consequently unavailable for purchase) are among the most powerful reasons for IEJV formation.

The major sustentive theories for IEJVs derive from: transaction cost analysis (TCA); strategic management and business policy; and organizational dynamics. These share commonalities but are meritoriously and sufficiently distinctive. The TCA paradigm focuses on the firm's manipulation of organization inter-faces to maximize gains and or minimize costs and resolve the conundrum - whether a firm should 'make' or 'buy'? [Rugman and Verbeke (1992)] However, even though IEJVs may be driven by "a necessary condition ... that the production cost achieved through internal development or acquisition is significantly higher than external sourcing for at least one of the partners" [Kogut (1988, p.320)], in viewing IEJVs as the internalizing of external resources [Buckley (1998a)], Williamsonian market failure may lead a firm to 'make' rather than 'buy' even though the price differential between these two options (if known accurately) is significantly large and favours the 'buy' decision. IEJVs therefore create vehicles which, because of moral hazard, appropriability, opportunistic risk, and impossibility of fully contingent specifications, provide incentives (mutual hostages) to perform.

Whereas Gullander (1976, p. 107) sees IEJVs as market servicing configurations i.e. strategies driven by the need to redress market power within value chains that raise barriers to entry, develop nascent markets, segment or fills gaps in declining markets; Harrigan (1984, p. 10) views IEJVs as reconfigurations - synergistic combinations of complementarities which increase asset values. IEJVs have increased to such an extent that they have become the sine qua non of

business strategy across the transnational space of markets and technologies [Anderson (1990); Dicken (1992); Dunning (1993, p. 191)]. It is important to note that explanations for IEJVs are complicated by the “circular interaction of all of the variables” and the relationships of autonomy and dependence are “neither simple, nor unidirectional, nor linear.” [Lyles and Reger (1993, pp. 396-397)]

Not all IEJVs are concerned exclusively with costs or competition. When MNEs are considered as complex and dynamic information management systems [Ghoshal and Bartlett (1990)] then IEJVs serve to add value to core competencies [McKelvey (1983)] in terms of tacit knowledge [Polanyi (1967)] and information impactedness [Williamson (1975)]. Oman (1984) identifies new forms of FDI in which an international division of risk and responsibility - an ‘unbundling’ of the FDI package, between MNEs, international capital markets and Host location élites - have led to IEJVs.

INTERNATIONAL EQUITY JOINT VENTURES IN EMERGING MARKETS

SSA, and its emerging markets, despite a decade or more of structural adjustment, represent a unique economic geography in which the interactions between politics and economics⁸ remain enigmatic and where there are virtually no discernible patterns of change [Austin (1993, p. 205); Robson (1993, p. 334); Baynham (1994, pp. 38-39); IMF (1995, pp. 98-107)]. Inter-regional comparison with S. E. Asia since 1960s indicates that its deteriorating situation is a long-run phenomenon [World Bank (1993)]. Macro-economic profiles and dependencia [Frank (1979); Michaels (1993)] are reflected directly in this research finding an asymmetrical dependence of Host local partners on British and French MNEs (EUMNEs) for a comprehensive range of management functions, processes and information. In examining these EUMNEs, their IEJVs and the Hosts, an attempt has been made to inform extant comparative studies and address

the question - do MNEs, in general, approach the management of IEJVs in a similar way? [Beamish (1985)] - in terms of the autonomizing predilection of firms [Gouldner (1959)] and the moderation of market failure by internalized hierarchical governance [Coase (1937); Williamson (1975, 1985)].

METHODOLOGY AND DATA SET

The evidence⁹ derives from interviews with managers of FDI in a convenient sample of 59 respondent EUMNEs {25 UK and 34 France headquartered from a targeted population of 59 UK and 78 French firms sourced from Department of Trade and Industry List of UK Associated Firms in Ghana, Dun and Bradstreet (Who owns Whom 1990), Supplement to the Official Journal of the European Communities (1992)} each with FMS operations in the Hosts. The sample represents 43.1% encapsulation and compares favourably with other research [Blodgett (1991); Millington and Bayliss (1995)]. The primary use of frequency analysis on Likert Scale questions captures an understanding of the dimensions of IEJVs for comparison with dimensions in existent work [Killing (1983); Beamish (1985)] namely venture-creation rationales; stability; performance; ownership; and ownership-control relationships. The author accepts that methodological issues arise with such comparisons (differing sample sizes and time-frames, differing research questions, differing availability in responses). In response to critique, the paper would argue firstly that these differences are not serious, and in the context of the longitudinal perspective adopted, they do not invalidate the comparisons. Secondly, data acquisition formalities (surveys) are consistent and possess strong construct and convergent validity across the studies [Cronbach and Meehl (1955); Campbell and Fiske (1959)]. Thirdly, the analytical formalities of the studies respect the quantitative techniques elucidated by Labovitz (1970, 1971). Fourthly, the analysis presented is

concerned more with characterization less with pure theory and statistical significations. Lastly, but not least, comparisons are made when appropriate. Therefore they add value to the literature.

The specific propositions examined with respect to EUMNEs' operations in the Hosts were: (a) EUMNEs motivations for IEJVs are related to Host market factors; (b) EUMNEs pursue incrementalist strategy for FMS; (c) EUMNEs assess the performance of IEJVs as not meeting their expectations; (d) EUMNEs' desire for operational control determines the equity structure of IEJVs; (e) EUMNEs' systems integration with IEJVs is intense in strategic and operations decision-making. Of the 59 EUMNEs, 45 (76.3%) had IEJVs and 14 (23.7%) had Wholly-Owned Subsidiaries in the Hosts. The IEJVs with equity participation ranging from 10% to 90% have been analysed¹⁰. These propositions are used firstly to explicate the management of EUMNEs IEJVs and secondly as a basis for comparison with extant work. Furthermore, detailed findings from other levels of this research are used to substantiate the comparisons with the previous studies.

CHARACTERISTICS OF EUROPEAN MULTINATIONAL ENTERPRISES

Assets and Sector Distribution

The asset values of the IEJVs range to £499 million (1990), however the vast majority (80%) have asset values below £9 million (1990). This reflects not only the SMEs nature of the FDI in SSA but also, more importantly, the low manufacturing value-added and historically absent opportunities for export seeking secondary sector industry¹¹ in SSA [UNIDO (1987, p. 44, 56, 69)].

The sectoral activity profile of the sample, shown in Table 1 - Sectoral Distribution of EUMNEs IEJVs, indicates clearly the primacy of manufacturing and reflects the sectoral

distribution of Joint Ventures summarized by Kogut (1988, p. 324). The markets served range from agri-business to government and from commodities to retail¹².

Table 1 - Sectoral Distribution of EUMNEs IEJVs

MANUFACTURING	MINERAL EXTRACTION	SERVICES
25 (55.5%)	5 (11.1%)	15 (33.3%)

Motivations for Establishing IEJVs: Venture-Creation Rationales

All business motivations culminate in the objective function of the firm - profitability [Buckley (1988b)]. However, there are a variety of other motives for establishing IEJVs in emerging markets. The key motivations of previous studies are summarized in Table 2 - Ranking of Motives for IEJVs.

Table 2 - Ranking of Motives for IEJVs

MOTIVES	KILLING (1983)		BEAMISH (1985)		BARTELS (1994)	
	Rank	%Responses	Rank	%Responses	Rank	%Responses
Government Oriented	3	17	1	57	2	66
Skills Required	1	64	2	38	4	31
Additional Resources	2	19	3	5	3	29
Market Access	Not Available		Not Available		1	90

In Killing (1983) the majority of IEJVs are formed because of bilateral requirements for internally unavailable skills. The comparative figure in both Beamish (1985) and Bartels (1994) is a minority. In the domain of the skills required by EUMNEs of Host partner in this research, local knowledge was ranked first and government influence was ranked second (reflecting government oriented motivation). IEJVs formation due to the quest for additional resources such as accessing Host facilities is indicated by a minority across the three researches. The motivation derived from government attitude, suasion or legislation is ranked across the three studies third, first and second respectively. An underlying feature of this motivation, in this research, is that 42% of respondents, who considered exploiting specific Host government FDI regime provisions,

concluded such government enticements as neutral, unimportant or irrelevant to their IEJV decision. This supports Pfeffermann's (1992) findings on the relatively low utility of incentives to MNEs investment strategies. Indications in Buzzell et al (1975) are supported by this research finding that the overwhelming rationale for IEJVs is market access. This motivation - considered important by 90% of EUMNEs - is predicated in operational terms as market penetration, size, perceived growth profile, customers and market servicing effectiveness and efficiency. Additionally, two-thirds of respondents considered labour factors either neutral, unimportant or irrelevant to their decision, while 25% considered labour factors important to the IEJV decision. Relatedly 27% EUMNEs cited circumventing import barriers as important. This latter finding reflects cogently the "frequently occurring scenario ... where non-tariff barriers such as import restrictions were initiated to the extent that the multinational would lose its access to the market if it did not establish a local manufacturing facility." [Beamish (1985, p. 14)] It is evidence for the persistence of impediments to FDI and trade, in spite of long-term policy deregulation, liberalization and privatization trends [Odle (1993, pp. 8-9)] and more recently IMF/IBRD structural adjustment and transition programmes [UNCTAD (1996, p. xxii)].

Incrementalism: Stability of Relations

Incrementalism - the sequential process of internationalization [Johanson and Wiedersheim-Paul (1975); Johanson and Vahlne (1977); Cavusgil (1980); Buckley (1988b)] - elaborated from the basic Aharoni (1966) risk model of FDI - is substantiated by the duration, and type, of FMS relations between EUMNEs and Hosts prior to IEJVs formation. These are summarized in Table 3 - EUMNEs Duration in Host Prior to IEJVs Formation and Table 4 - EUMNEs FMS Relations with Hosts Prior to IEJVs Formation.

Table 3 - EUMNEs Duration in Host Prior to IEJVs Formation

DURATION (YEARS) OF FMS IN HOSTS	% EUMNEs	RANK
0-9	10	3
10-19	2	5
20-49	31	1
50-99	24	2
More than 100	8	4

Table 4 - EUMNEs FMS Relations with Hosts Prior to IEJVs Formation

FORM OF FMS RELATION WITH HOSTS	% EUMNEs	RANK
Export to Hosts	58	1
Agency in Hosts	27	2
Import from Hosts	24	3
Hosts Sales Subsidiary	19	4
Technical Co-operation	17	5
Management Contract	5	6
Industrial Co-operation	5	6

In support of the value of long-term relations, 71% of EUMNEs indicated that their pre-IEJV relationship with the Hosts was very important or important to the subsequent overall success of the venture. Clearly, while there are overlaps in mode of FMS, export, agency and import relations predominate and follow the schema in Buckley (1988b, p. 214). Given the history of engagement between Europe and Africa these EUMNEs-Hosts relations reflect firstly, mercantilism and secondly, colonial patterns of centre-periphery intermediation [Peet (1991, pp. 138-144)]. Lower ranked modes of FMS may be expected to reflect more recent relations. The implications of time spent by EUMNEs servicing the Hosts, prior to IEJVs, are increased learning and commitment to the foreign market. Incrementalism culminates in 'Greenfield' investment as the preferred entry mode for the IEJVs in 59% of cases. Interestingly, the stabilizing influence of structural market imperfections specified in the Lomé Conventions (1964-2000) [Babarinde (1994, pp. 41-68)] is not borne out by the research because 90% of EUMNEs considered Lomé policy provisions or production factor contributions neutral, unimportant, irrelevant to the IEJVs.

Longevity of Operations: Stability of IEJVs

The stability, or instability, of IEJVs is determined by a dynamic combination of internal and external pressures (in this, the investment climate of SSA is highly influential). The term instability covers various interpretations - close down of a major part of operations; changing (for the worse) expectations; intensifying conflict; dissolution, reorganization and acquisition [Killing (1983, p. 23); Kogut (1988, pp. 328-329)].

Augmenting current understanding of IEJVs instability is best served by framing the concept by dimensions such as FDI production output, expansion, financial and capital restructuring. Since establishment, 19% of IEJVs have not expanded operations. Further, 25% of EUMNEs indicated they had no expansion plans in the period 1990-2000. Additionally, 41% of IEJVs had experienced serious financial problems between 1985 and 1990¹³. In keeping with perspectives on stability of IEJVs in literature, namely unsatisfactory performance preceding restructuring or close-down, capital restructuring took place in 31% of IEJVs. Close-down, or ex-Host relocation of a major part of the IEJV operations occurred in 34% of cases. Table 5 - Performance and Instability of IEJVs - compares extant research in terms of unsatisfactory performance and instability.

Table 5 - Performance and Instability of IEJVs

SAMPLE	DEVELOPMENT STAGE	% IEJVs UNSATISFACTORY	% IEJVs UNSTABLE¹
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		PERFORMANCE⁵	
1100	DCs [Franko (1971)]	Not Available	24.1 ²
168	DCs, LDCs [Janger (1980)]	37	Not Available
36	DCs [Killing (1983)]	36	31 ³
60	DCs, LDCs [Stuckey (1983)]	Not Available	42 ³
52	LDCs [Reynolds (1984)]	Not Available	50
66	LDCs [Beamish (1985)]	61	45 ³
149	DCs [Kogut (1987)]	Not Available	46.3 ²
45	LDCs [Bartels (1994)]	12 ⁵	34 ⁴

Adapted from Kogut (1988, p. 328), Table 5 should be read with the following notes in mind:

1 - Unstable is taken to mean that equity crosses 50% or 95% thresholds (i.e. equity of MNEs sold or IEJVs liquidated) [Franko (1971)].

2 - Inclusive of acquisitions and dissolutions. When major reorganizations included then the instability rate changes to 28.3% for Franko (1971) and 51.7% for Kogut (1987) respectively.

3 - Inclusive of major reorganizations.

4 - Definition of instability as close-down or ex-Hosts relocation of a major part of IEJVs operations.

5 - Definition of unsatisfactory performance as failing to met EUMNEs expectations. If unsatisfactory performance is redefined as inability to exceed EUMNEs expectations, then the figure increases to 68%.

A number of observations emerge and invite comment; bearing in mind limitations inherent in the idiosyncratic, but seminal nature, of the individual field works. Figures among the various studies, when available, suggest reasonably that instability is associated with unsatisfactory performance. Thus, at a basic level, this research emulates previous findings and supports closely IEJVs stability related findings across different geo-economic spaces over the long-term. This research finds internal reasons for instability to include: (a) Host partners failing to honour their part of IEJVs agreements due to poor operations management, insufficient managerial capability, differences regarding operational functions to be performed, technical incapacities as well as policy and strategic differences; and (b) a conflict profile, in terms of tension between autonomy and dependence [Franko (1971); Stopford and Wells (1972)]. To illustrate this latter issue for one global EUMNE, a serious bone of contention concerned the location and venue of board of directors' meetings - whereas the EUMNE wanted invariably the Host location (for obvious market/operational intelligence benefits), the Host partner wanted expensive international venues. This research hints that EUMNEs may be reluctant to admit to conflict with Host partners.

However content analysis points to partnership antagonisms over: functions to be performed; wages policy; Host partner attempt, outside the contract framework, to change terms; strategy; capital expenditure; performance; project expansion; dividend policy; and profit retention.

External pressures influencing instability are variously direct and indirect with certain factors which amplify the pressures. Direct pressures include: unsustainable competitive position; profitability below expectations; unacceptable production problems (for example, poor operations safety); unavailable material factor inputs; expansion strategies elsewhere in the global network of the EUMNEs; deteriorating local infrastructure and its effects on IEJVs operations; and, last but not least, adverse changes in Host governments' monetary and fiscal policies. Indirect pressures include, most importantly, political instability; communications and transportation difficulties; labour skills shortages; foreign exchange and working capital exigencies. Instability amplifying circumstances include: general managerial incapacity; irregular energy supplies; and low and irregular quality of input materials¹⁴.

Performance of IEJVs

Notwithstanding the objective/subjective debate, measures of IEJVs performance vary within the literature in at least two dimensions: across theoretical constructs - transaction costs, strategic behaviour and organizational learning; and within functional areas - finance, production and operations, human resource management. Herein lies the problematic of meaningful assessment of IEJVs performance. An attempt has been made here to address this chronic problem by selecting the variable for assessing performance as follows; how headquarter managers responsible for the IEJVs judged the extent to which overall expectations had been met and making comparison with other studies. The results indicated in Table 5 - Performance and Instability of IEJVs when read in the light of whether IEJVs have met EUMNEs expectations and

the EUMNEs assessment of Host investment climate, suggest ambivalence in attitudes of EUMNEs to their emerging market IEJVs.

Details of responses for the dimension - extent to which EUMNEs expectations of the IEJVs have been met - is provided by Table 6 - EUMNEs Expectations of IEJVs.

Table 6 - EUMNEs Expectations of IEJVs

SAMPLE	DEVELOPMENT STAGE	EXPECTATIONS	% EUMNEs
45	LDCs	Highly Exceeded	5
		Exceeded	25
		Met	56
		Failed	12
		Completely Failed	0

Analysis of responses on performance issues suggests that EUMNEs may have relatively low expectations of their IEJVs and/or have cognitive dissonance and a reluctance to admit failure. The research findings on IEJVs performance are more informative when contrasted with EUMNEs' perception of the 'investment climate' as it is this perception which provides the sufficiency argument for IEJVs formation (in tandem with the motivation - which is the necessary argument).

The 'investment climate' distils all considerations of location specific advantages and disadvantages into a manageable whole. In this regard, and generally, SSA demonstrates a widely known and persistent inability to attract and hold FDI in comparison with other regions [UNCTC (1992, p. 23); Bennell (1990, 1994); UNCTAD (1996, pp. xvii-xviii)]. Table 7 - EUMNEs Assessment of Investment Climate, illustrates this point.

Table 7 - EUMNEs Assessment of Investment Climate

SAMPLE	DEVELOPMENT STAGE	INVESTMENT CLIMATE	% EUMNEs
45	LDCs	Very Attractive	5
		Attractive	22
		Neutral	22
		Not Attractive	41
		Repelling	10

In the light of finding that 59% EUMNEs encountered major problems in conforming their IEJVs, it is not surprising that 73% do not find the Hosts attractive for FDI. In rank order the most important underlying reasons volunteered by managers were: (1st) lack of commitment to the free market by Hosts' authorities; (2nd) Hosts government instability; (3rd) excessive bureaucratization; (4th) punitive fiscal regimes; (5th) inconsistency in policy and its interpretation; (6th) lack of transparency in governance (legal and political). The suggestion of ambivalence by EUMNEs towards their IEJVs is supported by the finding that 83% EUMNEs confirm their intention to continue their IEJVs (even though they find the Hosts unattractive). This posture by EUMNEs at first appears inconsistent and contradictory.

A key component of IEJVs performance is the contribution of the Hosts local partner. Whilst EUMNEs' major contribution over the long-term has been undoubtedly in the speciality of management and technology, Hosts local partner major contribution has been local knowledge, influence with local authorities and government, labour input, and providing a local identity for the IEJVs¹⁵.

Ownership and Control Relationships in EUMNEs IEJVs

The breadth of received theory relating to ownership, autonomy and control, and information impactedness, renders the links between ownership and control as well as the mechanisms of control uncertain [Killing (1983, p.18)]. Pfeffer and Nowak (1976, p. 402) suggest that IEJVs organizational interdependence comprises competitive interdependence and symbiotic interdependence. Lyles and Reger (1993) suggest that autonomy, and hence control, is influenced by structural interdependence and strategic differentiation and - as there is "increased uncertainty and ambiguity surrounding control issues in joint ventures" [Lyles and Reger (1993, p.

388)]- it is posited here that, in contrast to Harrigan (1985), it is autonomy which increases strategic differentiation rather than strategic differentiation increasing autonomy. In this research the autonomy of IEJVs is limited and their reliance on EUMNEs headquarters asserts this.

The comparative ownership profiles in the extant research are depicted in Table 8 - Comparative Ownership of IEJVs.

Table 8 - Comparative Ownership of IEJVs

SAMPLE	DEVELOPMENT STAGE	% FREQUENCY OF EQUAL EQUITY IEJVs	% FREQUENCY OF MAJORITY OR MINORITY IEJVs
51 [Reynolds (1984)]	LDCs	20	80
47 [Mergers and Acquisitions (Beamish 1985, p. 16)]	LCD's	20	80
66 [Beamish (1985)]	LCD's	10	90
45 [Bartels (1994)]	LCD's	10	90

The asymmetry in ownership patterns is remarkably consistent across the studies and in time. It is best appreciated by reference to underlying concerns of EUMNEs' managers. Firstly, the majority of IEJVs, in this research, have either EUMNEs in majority (63% of majority cases) or minority (37% of majority cases) equity holdings. Secondly, 86% EUMNEs indicated that ensuring operational control of the IEJV was very important or important in determining the distribution of equity. This contrasts with 51% who considered spreading risk as very important or important. Clearly there is an overlap of control and risk in the mind-set of managers. Thirdly, concerning the degree of control required as necessary 'prior' to formalizing the IEJV decision, 77% EUMNEs indicated that equity holding greater than 50% was very necessary or necessary. Furthermore, 88% EUMNEs indicated that they would recommend a majority IEJV to other MNE investors and lastly 66% EUMNEs considered the assurance of operational control as very important or important.

Literature indicates that majority equity positions are not necessary for the focus, extent and mechanisms of control to be at the disposition of one of the partners. The key determinant is the strategic set of objectives of the partners [Geringer (1993, pp. 210-216)] and partner projection of power. In this research, a primary mechanism of control was through the selection and appointment of IEJVs' Chief Executive Officer (CEO). This functionary was almost invariably a British or French national (in 80% of cases) [Rafii (1978); Killing (1983, pp. 26-27)] with most of the influence in choice being wielded by EUMNEs (in 86% of cases). Research analysis suggests that EUMNEs control their IEJVs via the following communications, coordination, command protocols: headquarter-IEJVs functional integration, and dependency of IEJVs on EUMNEs, in the domain of management development processes. It was found that IEJVs management structure is a simulacrum of that in EUMNEs partner in 56% of cases. Furthermore, management development procedures of recruitment, training, and promotion were exactly the same, or somewhat like, that in EUMNE partner in 68%, 59%, and 71% of cases respectively.

Regarding dependency on EUMNEs generated procedures, IEJVs are very dependent or dependent in 76%, 64%, and 78% of cases in areas of recruitment, training, and promotion respectively. It was found also that *in the first year of the IEJV operations*, all the technology and management know-how was contributed by EUMNEs in 76% and 81% of cases respectively. In 1990 the situation had changed, but not to the extent expected, EUMNEs were still contributing all the technology and management know-how in the majority (58% and 49% of cases respectively). These findings indicate two key factors at work in IEJVs in emerging markets: (a) overall dependence on EUMNEs decreases over time; (b) IEJVs remain predominantly dependent on external technologies and managerial capabilities [Anderson and

Gatignon (1986)]. Killing (1983) and Beamish (1985) provide scant data on control mechanisms in the control-performance relationship in IEJVs, limiting their presentation to a matrix of performance assessment and dominant or shared control [Beamish (1985, p. 16)]. The lacuna on specific decision-making requires addressing. A key control mechanism lies in the domain of dependency of IEJVs on EUMNEs for major decision-making in critical areas [Schaan (1983), Bartels (1995)]. Table 9 - Extent of IEJVs Dependency on EUMNEs in Major Decision-Making, indicates the very dependent or dependent situation of IEJVs on parent MNEs. Control by EUMNEs is most visible in: finance; management organization and strategy.

Table 9 - Extent of IEJVs Dependency on EUMNEs in Major Decision-Making

SAMPLE	DEVELOPMENT STAGE	DECISION-MAKING FUNCTIONAL AREA	% EUMNEs
45	LDCs	Capital Expenditure	83
		Management Recruitment	78
		Management Promotion	76
		Budgetary Control	71
		Strategic Direction	68
		Management Training	64
		Accounting	63
		Budget Setting	61
		Management Information	56
		Product Design	54

The control exercised through functional integration is most pronounced in the following areas: financial controls; budgeting; budgeting control; accounting; costing; strategic direction; managerial organization dynamics of recruitment, training and promotion. Hence control is exercised by EUMNEs over arrangements related directly to profits. Divergence, and hence potential conflict, between EUMNEs and Hosts partners in strategic direction, pricing, dividend, production output, and reinvestment objectives is suggested. EUMNEs appear less concerned with functional areas ‘closer to the market’ such as production, local prices, marketing. These

indications contrast with Tomlinson (1970) who suggests that insistence on controlling major decision-making by MNEs is not necessary to enhance performance.

CONCLUDING REMARKS AND SUGGESTIONS FOR FURTHER RESEARCH

Inter-firm co-operative arrangements encompass a variety [Glaister and Buckley (1994, p. 34)]. However, comparisons between the research studies presented herein show longitudinal consistency in characteristics of IEJVs between firms from DCs and LDCs in the dimensions: motives, instability, asymmetry in equity distribution, frequency of government association, source of CEO, autonomy in management. In response to the question - do MNEs approach the management of IEJVs in a similar manner? Comparison of this research data with that from Beamish (1985) and Killing (1983) (despite methodological issues mentioned earlier) yields an answer in the affirmative, although there are nuances. Differences among the studies are to be found in MNEs dissatisfaction with IEJVs performance, control relationship, and level of equity.

Table 10 - Summary of IEJVs Key Characteristics, brings together key extant research properties and highlights differences found among, and within, IEJVs to illustrate vividly the 'paradox of joint ventures' - the dislike of IEJVs by managers and the increasing incidence of IEJVs [Killing (1983, p. 1); Stiles (1994 p. 133)].

Table 10 - Summary of IEJVs Key Characteristics

CHARACTERISTIC	KILLING (1983)	BEAMISH (1985)	BARTELS (1994)
Stage of Development of Hosts Location	High	Low	Low
Primary Motive for IEJVs	Skill Required 64%	Government Suasion 57%	Market Access 90%
Instability Rate	31%	45%	34%

MNEs Dissatisfaction with Performance	61%	37%	12%
Frequency of Association with Gov't	Low	Moderate	Low to Moderate (36%)
Commonest Level of Ownership for MNEs	Equal	Minority	Majority (63%)
Ownership-Control Relationship	Direct (dominant control with majority shared with equal equity)	Difficult to discern (due to MNEs minority equity)	Direct-Indirect (dominant with majority equity, and via technology, management and functional operational processes)
Control Relationship	Dominant Control	Shared Control	Dominant Control
Frequency of IEJVs Autonomous Management	Low (16%)	Negligible	Negligible
Source of CEO	Local partner	Either Partner	EUMNEs Partner
MNEs Perception of Investment Climate	Good	Moderate	Poor

The contributions of this research to existing literature are several. Firstly, it assists in pulling research on international business operations in marginal areas more into the main-stream. Secondly, it supports empirically the long-term developments in the theory of JIBAs, that are now seen to encompass several distinctions in “co-operation effected through mutual forbearance” [Buckley and Casson (1994, p. 92)]. Thirdly, from the perspective of emerging market Host governments, key policy considerations which revolve round the issues of location specific advantages and attractiveness of the FDI climate require attention. Such vigilance may moderate not only IEJVs’ instability but also help to shift the venture-creation rationales away from market access and relatively low value added activities towards skills required, that is, higher value added production. Such Host orientation carries potential for technology transfer to become embedded and internalized by the Hosts for accelerated economic growth (HPAEs style). Fourthly, it highlights, in contrast to the extant work quoted herein, the important dimension of longevity as

well as conflict in IEJVs' stability and instability amplifying circumstances. Fifthly, the research indicates that IEJVs in the emerging markets of SSA reflect the characteristics found in literature. Differences are not fundamental but rather of degree except in the domain of ownership-control relationship. This research attempts to explain the nexus between ownership and control, and the difference it has with extant work, by highlighting three key factors (degree of control 'prior' to IEJVs formalization, functional dependency and integration, managerial procedures) which provide the necessary and sufficiency arguments for EUMNEs in IEJVs formation. An important difference with extant research is that market access accounts for the principal motivation. Lastly, differences notwithstanding, the research points to the consistency of IEJVs over time and space at least as far as LDCs are concerned. It advances a response to the question on the management of IEJVs in suggesting that MNEs approach the management of IEJVs in similar ways.

The anomaly, a rich topic of further research, is that while most IEJVs meet expectations (but in no way exceed them) 73% of EUMNEs find the Hosts investment climate not attractive and even repelling. Given the sentiment of one EUMNE executive - "if we were not there we would not go in" - it is remarkable that the instability rate is not markedly higher in comparison with other studies. It is posited that low economic activity, coupled with low asset values, in the light of the need for EUMNEs access to information and intelligence [Egelhoff (1991, pp. 342-343)], raise exit barriers and reduce the incentives for rapid close-down of operations. This study suggest that researching this anomaly and questions pertinent to IEJVs' mission [Piercy and Morgan (1994)] as well as strategic decision-making would be expedient. Other questions pertinent to the organizational politics of autonomy and dependence might shed brighter light on the causal relations between stakeholder influence, control and achievement of performance goals. Furthermore, an examination of issues dealing with equity and risk in relation to organizational

learning, technology capture and skills transfer would illuminate the policy debate on emerging nations' industrial development.

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* Dr. Frank L. Bartels is Assistant Professor in International Business at Nanyang Business School, Nanyang Technological University, Singapore

¹ See Buckley (1991, 1996) for a conceptualization and elaboration of collaborative inter-firm relations and Dunning (1994/95, 1995) for the development of firm co-operation and co-agency formalities as "alliance capitalism" [Dunning (1994/95, p. 12)]. Others, notably Lorange and Roos (1991), Parkhe (1993b) and, Pekar and Allio (1994) identify the interplay of operational factors and incident pressures brought about by Williamsonian market failure.

² See Bartels and Pavier (1996) for the operational requirements placed on MNEs in the intermediation dynamics of managing across the internal boundaries of fragmenting polity.

³ For a serious appreciation of this lacunae, Anisya Thomas, Oded Shenkar and Linda Clarke (1994) in their article 'The Globalization of our Mental maps: Evaluating the geographic scope of JIBS coverage analysing frequency of countries studied between 1970 and 1993 cite only South Africa (3%), Egypt (1.8%), Kenya (1.7%), Ivory Coast (1.5%), Morocco (1.5%), Algeria (1.3%), Zambia (1.2%), Ghana (1.0%), Sudan (1.0%). Furthermore, in JIBS articles by continent studied in the same period, Africa yields a paltry 6.0% (slightly higher than Oceania at 4.5%!). The picture is repeated when articles from the publications *Management International Review* and *Columbia Journal of World Business* are examined.

⁴ Author's italics - HPAEs are the High Performance Asian Economies of Hong Kong, Singapore, South Korea and Taiwan.

⁵ See Spekman et al (1996) for an indication of management perceptions of disadvantages in alliances.

⁶ As pertains in industrial sectors with high asset specificity induced entry barriers such as biotechnology, micro-electronics, airlines, energy, pharmaceuticals and which are delineated comprehensively by Hakansson et al (1993), Bowonder and Miyake (1994), Barton et al (1994) and, Fina and Rugman (1996).

⁷ See Kogut (1988, p. 328), Harrigan (1988), Dunning (1993, p. 192) and Culpan (1993) for significant theoretical and analytical approaches to multinational competition and co-operation, and the 'continuum of dependence'.

⁸ See Ayittey (1992) for a powerful characterization of factors, inter alia, responsible for the managerial and economic problems of doing business in Africa.

⁹ Field work performed for doctoral research at the University of Bradford Management Centre in 1993.

¹⁰ According to the criteria of less than 10% equity representing portfolio investment and greater than 90% representing a Wholly Owned Subsidiary (US Commerce Department).

¹¹ The asset size related criteria for IEJVs operations also reflects more recent macro-economic performance. Between 1965-87 (during the period of Structural Adjustment Programmes) Ghana suffered a decline in industrial production and gross domestic investment of 0.33 and -1.3 average annual per cent respectively. Cote D'Ivoire, although it posted 1.0 per cent growth in GNP per capita during the same period, also suffered dramatic decline in GDP growth, industrial production and gross domestic investment at 5.2, 7.3 and 3.0 average annual per cent respectively [World Bank (1989, p. 222, 228)].

¹² The extent to which EUMNEs are reflective of the MNE as an interorganizational network [Ghoshal and Bartlett (1990) is provided by appreciating that 92% of British and 91% of French firms had multiple operations between 1 and 50 in SSA. This research indicates that using FDI operations as export platforms was considered unimportant by most EUMNEs.

¹³ This corporate experience is one manifestation of 'the lost decade' as far as Africa is concerned. Despite the value of FDI flows to Africa increasing from annual average US\$1.7 Billion in 1981-1985 to annual average US\$3.0 Billion in 1986-1990, the increase "did not give rise to much optimism" [UNCTAD (1995b, p. 21)] indeed "in many ways, the decade of the 1980s in Sub-Saharan Africa was lost in social and economic terms. Between 1980 and 1990 per capita income fell in the region by an astounding 1.1 per cent per annum (World Bank, 1992a, p. 196)." [Stein (1995, p. 1)]

¹⁴ Both Ghana and Cote D'Ivoire have experienced these in ample measure. For a comprehensive review see McGowan and Johnson (1986, p. 540, 544) and UNCTAD (1995b, pp. 37-39).

¹⁵ This reflects the 'L' dimension - one of the three key theoretical constructs in the eclectic paradigm of internationalization of firms - in global strategy and international production. Critically, Hosts partner contributions lie within the variable set bounded by cross-country ideological, language, cultural, business, political differences [Dunning (1993, p. 85, 99)].