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**International joint ventures: managarial lassons to drew
from European - Argentine partnerships.**

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Luis Toral

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Vera Batek
Fotokopierzentrum
Heidelbergerfassgasse 16a,
55116 Mainz - Germany



**Monsieur Luis Toral est autorisé à imprimer sa thèse de doctorat
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Il assume seul la responsabilité des opinions énoncées.

Neuchâtel, le 22 novembre 2000

**Le Doyen
de la Faculté de droit
et des sciences économiques**

Pierre Wessner

A mon père, Verena et Karl.

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List of abbreviations

BP	Business plan
CS	Case study
CSF	Contact summary form
Cult.	Cultural
DC(s)	Developed country (ies)
DCF	Discounted cash flow
Eco.	Economical
FDI	Foreign direct investment
FP	Foreign partner
GDP	Gross domestic product
GM	General manager
HQ	Headquarters
HRM	Human resource management
Jur.	Juridical
JV(s)	Joint venture (s)
JVGM	Joint venture general manager
LDC(s)	Less developed country (ies)
LP	Local partner
M&As	Mergers and acquisitions
Mgmt.	Management
MNE(s)	Multinational enterprise (s)
NA	Non available
Org.	Organization
PC	Parent company
Pol.	Political
PSP	Partner selection process
R&D	Research and development
SA(s)	Strategic alliance (s)
SME	Small and medium enterprise
Soc.	Societal
Struct.	Structure
TC(s)	Transaction cost (s)
Tech.	Technological

Preface

This research is the result of a strong motivation I had to complete my formal education undertaking an academic challenge. The strategic alliances field, and particularly the JV problematic attracted me very soon because it gave me the opportunity to build a bridge between the two worlds in which I grew up, contributing to JV research in Latin America. I am thankful to Dirk Beisemann for his helpful advice and initial support, I will never forget our discussion at the foot of the Neuchâtel castle, contemplating the lake and the Alps, where the idea to begin the thesis concretized. I am also very thankful to Raffaella Marinucci for her ongoing support and patience.

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1. INTRODUCTION

1.1 Background to the research

Developing countries have been growing faster than the industrialized world, and World Bank forecasts suggest that this trend is likely to continue. Companies have not been oblivious to such trends, with the result that direct investment flows to developing countries have been accelerating rapidly (Miller, Glen, Jaspersen, and Karmokolias, 1999). In fact, worldwide foreign direct investment (FDI) flows have grown at an accelerating pace, reaching 400 000 million USD in 1997 (ECLAC, 1998) as the result of the expansion of transnational companies, which are integrating their activities at a world level building research and development (R&D), production, and distribution networks specializing their activities by region (Bircher 1995; UNCTAD, 1996). While these flows have been strongly concentrated in industrialized countries, the relative importance of developing countries has been increasing. Between 1995 and 1997, FDI flows to Latin America and the Caribbean grew from 33 006 million USD to 65 199 million USD. This spectacular increase means that 45% of the total FDI received historically by the region arrived during the 90s (ECLAC, 1998).

The increasing FDI flows to Latin America are explained by the economic policy changes that most countries in the region undertook during the 90s. The latter have a strong neo-liberal content and favor international investment by creating a friendly regulatory environment (ECLAC, 1996). Foreign companies are reconsidering their strategies towards the region to take advantage of opening markets and privatization programs. The increasing number of mergers and acquisitions (M&As), strategic alliances (SAs), joint ventures (JVs) is expected to fuel the growing levels of FDI. Previous research showed that the number of JVs used for international operations has dramatically increased over the last decades reaching 50% when concerning emerging markets (Stopford and Wells, 1972; Beamish and Banks, 1986; Lorange and Probst, 1987; Harrigan, 1988; Gomes-Caseres, 1989; Anderson, 1990; Zeira and Shenkar, 1990; Geringer, 1991; Spekman, Isabella, MacAvoy, and Forbes III, 1996; Osland and Cavusgil, 1998; Adarkar, Adil, Ernst, and Vaish, 1997). Despite the growing importance of JVs in less developed countries (LDCs), it is surprising to note that very few investigations have been undertaken to

understand this trend, (Beamish, 1995). The objective of this research is to contribute updating and expanding the body of knowledge regarding JVs among developed countries (DCs) and LDCs, through the analysis of European-Argentine examples (Refer to the methodology chapter for a detailed explanation of our country choice).

1.2 Research problematic

Globalization changed the perspective of many companies in DCs and LDCs, which has shifted from national to international. This movement began with a few big multinational enterprises (MNEs) after the second World War and was followed progressively by a large number of smaller firms (Bircher, 1991; Usunier, 1992; Buckley and Glaister, 1996; Kostecki 2000: 2). Strategic alliances have played and are playing an important role in this process (Contractor and Lorange, 1988; Dunning, 1995, 1997; Boyd and Dunning, 1999).

Companies in DCs face classic constraints to growth in their home markets. Growth slows as home markets saturate, and a lack of resources (raw materials) to process results as local supplies are exhausted. In this context, growth depends more and more on international expansion, and JVs offer, among others, a faster entry to local markets, access to local knowledge, access to resources (Commodities) and so on (See section 4.2.1.3.).

LDCs companies also face development difficulties, as they often have access to abundant resources but lack capital and modern technology to exploit them. They also have little access to international markets due to poor distribution networks, and shortage of marketing know-how. Once again, JVs offer an interesting solution to overcome the above-mentioned difficulties (Refer to section 4.2.1.3.).

Although it is true that in theory JVs appear as a good strategy to acquire complementary resources, in reality they pose several problems due to shared management. According to most researchers in the field, there is a high risk of failure associated with this complex form of organization (Beamish, 1985; Harrigan, 1988 (b); Gomes-Caseres, 1989; Geringer, 1990; Baird, 1990; Lane and Beamish, 1990; Bleeke and Ernst, 1992; Roos, 1994; Shaker and Galal, 94; Swierczek and Hirsch, 1994; Fay, 1995; Sweeney, 1996). There are multiple causes provoking JV failure, among others worth mentioning are bad partner selection process (PSP), cultural incompatibility, parent companies' (PCs) asymmetries, changes of motivations over time.

environment turbulence, poor performance, and so on. Much research has been done to understand the determinants of success and failure of international joint ventures (IJVs). The main variables studied (individually) in order to explain and analyze the strategic motives, structure and output of this form of cooperative strategy were: ownership structure, control, culture, and performance (Contractor and Lorange, 1988).

Our aim in this research was to present a systemic view of European-Argentine JVs. What we intend by systemic view of JVs is a broad study of different JV life cycle stages considering many variables at the same time. This perspective differs with previous studies that analyzed the influence of a limited number of variables on JV performance.

We tackled various problems in this dissertation. We were interested in the reasons leading to JV formation (PCs' motivations), as well as in JV design, management, and performance evaluation particularities. The research questions that we addressed were the following:

- Why do European and Argentine firms form JVs?
- How do PCs create, manage and evaluate their JVs' performance;
- Why some JVs perform better than others?
- What lessons can be drawn from these JV experiences?

1.3 Justification for the research

Section 1.1. documents a general lack of research regarding LDCs' JVs, despite their increasing importance (Beamish, 1995). Besides this general lack of research, we noticed during the literature review (chapter 2) that JV research in LDCs has followed FDI trends. The latter explains why research was carried out in Latin America during the 70s and early 80s, and was then practically abandoned during the rest of the decade (regional FDI crisis) focusing on Asian or Eastern European countries... This research characteristic regarding JVs in emerging markets explain why the body of knowledge related to Latin American countries is not up to date and consequently fails to explain completely the current JV situation. The latter justifies our effort to update the body of knowledge.

Moreover, previous research adopted a one-sided view: biasing in favor of the foreign partner and leaving aside the analysis of aspects regarding the local partner (Beamish, 1987). This dissertation contributes to the body of knowledge with the analysis of 8 JVs integrating both PCs' perspectives.

Additionally, earlier investigations focused on the study of a limited number of variables and their interrelations or their effects on JV performance. As mentioned in section 1.2., our dissertation adopts a systemic view of JVs considering the complexity of interrelationships among a large set of variables (Refer to chapter two, systemic view of JVs).

Finally, small and medium enterprises (SMEs) in DCs and LDCs are following the internationalization footprints of MNEs. There are several international programs ("*Al Invest*" sponsored by the European Community, "*Programa Bolívar*" sponsored by the Inter-American Development Bank) that have been developed to favor this internationalization process through SAs and particularly JVs. The economic implications of JVs are very important, particularly in LDCs, in terms of revenue, employment, and knowledge and technology transfer. Consequently, any effort to improve the understanding of this type of SA, or to help reducing its failure risk is justified.

1.4 Methodology

The use of a research strategy (experiment, survey, history, case study) implies a different way of collecting and analyzing empirical evidence, and each strategy has its own advantages and disadvantages (Yin, 1994: 1-15). Strategies can be used for three purposes, exploratory, descriptive, or explanatory. Three conditions distinguish the strategies, the type of research question, the extent of control a researcher has over actual behavioral events, and the degree of focus on contemporary as opposed to historical events. Table 1 displays these conditions, and shows how each strategy is related to five major research strategies in the social science: experiments, surveys, archival analysis, histories and case studies.

The case study (CS) research strategy was preferred in this investigation for different reasons. First, the type of questions we deal with in our research are of "why" and "how" type (Why do European and Argentine firms form JVs? How do they create, manage and evaluate the performance of their JVs, why some JVs perform better

than others, and what lessons can be drawn from these JV experiences?). These type of questions deal with operational links needing to be traced over time, rather than with mere frequencies or incidence manifested by questions like: what, who, and how many that would be adapted for a survey.

Table 1: Relevant situations for different research strategies.

Strategy	Form of research question	Requires control over behavioral events?	Focuses on contemporary events?
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes / No
History	How, why	No	No
CS	How, why	No	Yes

Source: Based on Yin, R. (1994). *CS Research: Design and Methods*. Sage, Thousand Oaks, p.6

The other reasons refer to the extent of control over behavioral events and the degree of focus on contemporary as opposed to historical events. Each method, history, CS, and experiment presents its own particularities regarding the latter elements. Histories are preferred when there is virtually no access or control (dealing with the dead past, no relevant persons are alive to report, even retrospectively, what occurred. The sources are primary and secondary documents, cultural and physical artifacts).

The CS is preferred in examining contemporary events, but when relevant behaviors cannot be manipulated. It uses mainly the same techniques as history but adds two sources of evidence, direct observation and systematic interviewing. The CS unique strength (confronted to history) is its ability to deal with a full variety of

evidence. Moreover in some situations, such as participant observation, informal manipulation can occur. Finally experiments are done when a researcher can manipulate behavior directly, precisely, and systematically. This can occur in laboratory setting.

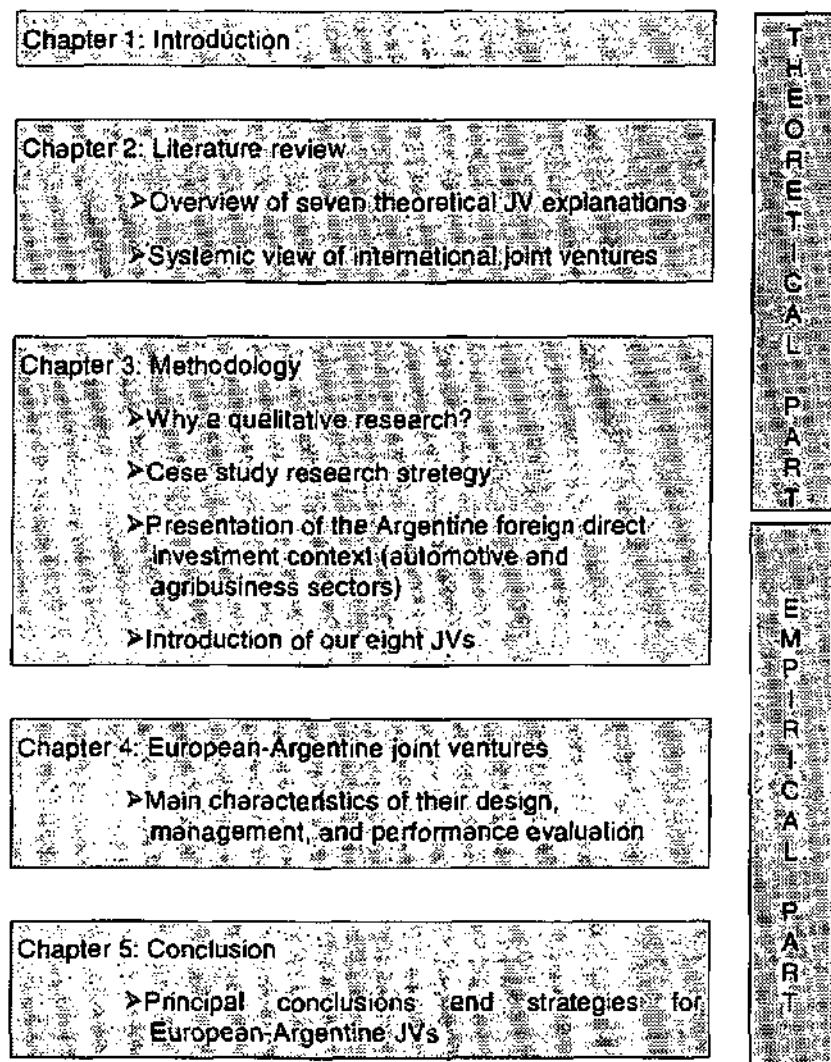
In our research we find ourselves in a situation where the CS strategy has a distinct advantage over the other strategies. How and why questions are being asked about a contemporary set of events, over which the researcher has little or not control, which justifies the choice of our research strategy.

1.5 Dissertation outline

This dissertation consists of five major parts (Refer to figure 1). Chapters 1, 2, and part of chapter 3 contain theoretical discussions about JVs as well as methodological issues, while the remaining chapters are devoted to the empirical investigation. The theoretical part is based on extensive literature studies while the empirical part is based on qualitative analyzes of eight European-Argentine JVs belonging to the automotive and agribusiness industries.

After a brief introduction in chapter one, the theoretical discussion begins with an overview of various JV explanations from the economic, organization and strategy literature. This outline of different JV explanations allows us to have a variety of perspectives concerning the rationale of JVs and is useful, among others, to approach the field with a broad view concerning JV formation, and to link our research logic and findings to the existent body of knowledge. Then a literature review presenting a systemic view of international JVs is discussed. Finally, we summarize the variables that have been the most investigated and their interrelations using a causal network model. Chapter three presents the different paradigms used in qualitative research as well as their practical implications. It also describes qualitative research particularities, and finally it introduces our specific research approach (case study) and design. Chapter four presents and analyzes the data collected through interviews in Argentina, Switzerland, France, Italy, Germany, and The Netherlands during the Fall of 1998. The logic we follow to structure this section corresponds to the one of chapter 2 that reviews the international JVs' literature (JV systemic view). Finally, chapter five summarizes our findings linking them to the body of knowledge. It also presents strategies and tactics for European-Argentine JVs, dissertation limitations, and directions for future research.

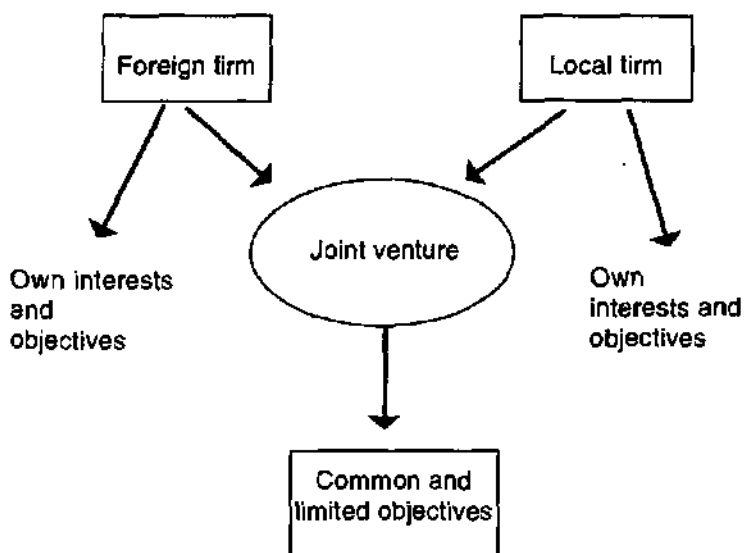
Figure 1: Dissertation's structure



1.6 "International joint venture" definition

By IJV we mean a distinct organization created by two or more legally distinct organizations (the PCs) with the parents' headquarters operations being located in different countries. IJVs are perceived often to be strategic weapons for gaining entry in emerging markets (Herrigan, 1987) and for gaining knowledge and skills in using new technologies (Kogut, 1988; Geringer and Hebert, 1989). This definition excludes other forms of cooperative agreements such as licensing, distribution and supply agreements, research and development partnerships, or technical assistance and management contracts. We use the terms, JV and IJV, to describe the same idea throughout this dissertation.

Figure 2: Structure of an International joint venture



Source: Adapted from Garrette, B. and P. Dussauge (1995). *Les Stratégies d'Alliance*. Les Editions d'Organisation, Paris.

1.7 Delimitations of scope

We were confronted with several choices while narrowing the focus of our research problematic, and by making such choices we built a fence around the research findings. This investigation deals with a CS regarding DCs-LDCs JVs, particularly European-Argentine JVs involving firms originating from the private sector. The CS includes the analysis of eight cases from the automotive and agribusiness industries and incorporates both PCs' perspectives. We undertook a systemic view of JVs, which implied the study of a large number of variables instead of concentrating our efforts on a few variables. By doing so, we inevitably privileged some aspects to the detriment of others (for example, the role of financial aspects in JVs, which are extremely sensitive, was underestimated). Due to resource constraints we employed a one person, one time data collection process.

1.8 Summary

This chapter laid the foundations for the thesis. It introduced the research problem and research questions. Then the research was justified, definitions were presented, the methodology was briefly described and justified, the thesis was outlined, and the limitations were given. On these foundations we can proceed with the literature review.

2. LITERATURE REVIEW

2.1 Introduction

This chapter begins presenting different theoretical explanations for the formation and development of strategic alliances that also apply to JVs. Although the presentation is not exhaustive, it allows us to have a variety of perspectives concerning the rationale of JVs. The development of such a diversified vision is useful to elaborate a theoretical list of motivations explaining why firms engage in JVs; to approach the field with a broad view concerning JV formation, and finally to link our research logic and findings to the existent body of knowledge (a more extensive explanation of the utility of theory in designing CSs is presented in section 3.3.3.1.). Then a literature review covering key JV's life cycle stages is presented. It describes important aspects in JV formation, design, management and performance evaluation, and is useful to break up our general research questions into propositions¹ that will drive our field study. Finally, we summarize the variables that have been the most investigated and their interrelations using a causal network model.

2.2 Overview of different theoretical JV explanations

Answering theoretically to the question: why do firms engage in JVs? is not a simple task due to the complexity of the phenomenon. Several explanations for the occurrence of strategic alliances applying to JVs can be found in the economic, business, management, and organizational literature. No single theoretical approach is powerful enough to completely explain the phenomenon, therefore, we present several complementary theoretical approaches that together give a more complete view of the reasons behind JV creation. The group of dominant and complementary theoretical explanations is useful for the

¹ Study propositions direct attention to something that should be examined within the scope of the study. Our research questions: why do European and Argentine firms form JVs?, how do they create, manage and evaluate the performance of their JVs, why some JVs perform better than others, and what lessons can be drawn from these JV experiences? are general and do not point to what should be studied. Stating propositions help a researcher to move in the right direction (Yin, 1994: 21).

conduct of the empirical investigation. It is important to specify that we do not adopt a specific theoretical approach in this dissertation, but that we rather use a set of different theories to develop a broad view of JVs. The latter allows us to remain open during the field work to different theoretical explanations regarding JV creation and development. The table below presents the different theories that we expose in this section.

Table 2: Theoretical explanations of JV occurrence

Economic perspective	• Monopoly theory • Transaction cost theory • Game theory
Organization perspective	• Resource dependency theory • Population ecology theory
Strategic perspective	• Resource based view of the firm • Organizational learning

2.2.1 Economic perspective

This perspective argues that formation and development of alliances is motivated by the willingness of an organization to improve the input / output relationship. Some examples for this are organizations looking to increase their market power, reduce their costs, build trust throughout the relationship to maximize potential payoffs, and so on (Büchel, 1996). A short presentation of some major theories representing this perspective follows.

2.2.1.1 Monopoly theory

According to Kootz (1996), one of the oldest strategic alliance explanations which can be found in the industrial organization literature goes back to the concept of monopoly power, which is reflected in a firm's market share and the barriers to entry of its markets. There is a positive relationship between market share, barriers to entry, and a firm's profitability. The greater the market share and the barriers to entry and the greater the monopoly power of a firm since it will gain more autonomy in setting its prices and thus in increasing its profits.

Garrette and Dussauge (1995: 46) explained that the objective of JV research concerning firms from the same country was to evaluate its distorting market effects. Most research undertaken in the United States during the 80s and 70s tended to demonstrate that agreements between American firms were signed following a collusion logic and had distorting market effects (Pfeffer and Nowak, 1976 a and b). Besides, in most cases, JVs associated firms competing in the same market, which tended to prove their collusive character. Nevertheless, in the late 70s, radical different analyzes appeared. Some authors started advocating the advantages of alliances showing that they can have legitimate objectives compatible with economic progress (Berg and Friedman, 1978, 1981; Berg, Duncan and Friedman, 1982). In fact, many JVs are motivated by the willingness to acquire and to combine know-how, which is positive for product innovation and client satisfaction. In this context, firms creating alliances do not systematically pursue a market power objective allowing them to increase prices and build a more secure market situation limiting competition, they rather seek an alternative solution to internal R&D.

The stake of the competitive impact debate referring to JVs is very important to politicians as well as to managers because it leads to a distinction between strategic alliances and anti-competitive agreements. Evidently, the latter have negative effects for clients because they will have to pay higher prices for products but they will also have a sterilizing effect on firms participating to such agreements since they will lose their competitive position notably against their international rivals. On the contrary, alliances that encourage complementarities between partners may increase value for their clients and give a competitive advantage to firms participating on such agreements.

2.2.1.2 Transaction cost theory

This theory plays a central role in the analysis and interpretation of strategic alliances because it examines the firm's boundaries definition problem. The theory proposes a theoretical justification for the situations where cooperation is preferred to M&As on one hand, and to simple market spot transactions on the other (Beamish and Banks, 1986; Hennart, 1987; Garrette and Dussauge, 1995).

Williamson, the most prominent proponent of transaction cost (TC) economics, focuses on the transaction as the basic unit of analysis. This emphasis puts him in a different position than most other organizational and economic theorists who use the organization or the market as the basic analytical unit. According to Williamson (1985) "a transaction occurs when a good or service is transferred across a *technologically separable interface*". Thus, a transaction includes all preparatory steps for the exchange of goods and services as well as the exchange itself and the necessary controlling measures for the proper execution of the contract. All of these processes incur costs, so-called TCs. They are defined as the economic equivalent of friction in physical systems. In reality, main TCs are search costs for an adequate transaction partner and good business conditions, contractual costs for the closing of a deal, control cost for the correct execution of the contract, and finally adjustment costs which are caused by a changing environment (Kootz, 1996).

In contrast to neoclassical economists, Williamson (1985) assumes that the firm is primarily a cost economizing and not a profit-maximizing entity. Its organizational problem is coordinating transactions optimally and finding the optimal governance structure for them so that the sum of all costs related to any transaction is minimized. This is done by employing the marginal cost principle of neoclassical economics. Thus, the optimal governance structure is not determined by technological or product costs but by its related TCs which depend on several environmental factors. These can be classified into two groups, the behavioral and the situational factors (Kootz, 1996).

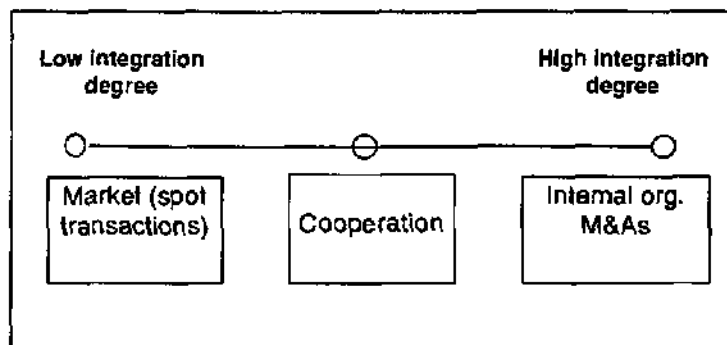
First, Williamson accepts Simon's idea on the bounded rationality of human beings. This concept proposes that economic actors intend on being rational and are rational, but only in a limited manner (Simon, 1982). The idea of the bounded rationality of economic actors and their limited cognitive abilities precludes the existence of perfect contracts. Therefore, regardless of the environmental situation and the existing

governance structure, TCs always arise; they only vary in size. The other behavioral aspect considered in Williamson's model concerns opportunism. Human beings are seen as seeking their own interests first even if this includes forms of deceit. More often than not, opportunism involves subtle forms of deceit - both active and passive. The concept also entails deliberate forms of deceit such as lying, stealing and cheating (Kootz, 1996).

The situational factors influencing the size of TCs depend on the transaction itself and the infrastructure in which it takes place. First of all, transactions differ by degree of uncertainty, complexity, and frequency. Secondly, they differ by their need for asset-specific investments. Equally important is the number of potential transaction partners, also called the small number problem. The fewer partners found in the market, the higher will be their respective power and thus their ability to raise TCs. In addition to these transaction specific criteria, the general legal, technological and economic environment also influences TCs (Kootz, 1996).

The various forms of governance structures available to a firm are seen as being positioned on a continuum with the market as the forum for transactions at one end and the internal organization at the other end.

Figure 3: Governance structures available to a firm



Markets represent a good framework for spot transactions where all obligations are fulfilled at once. However, the higher the asset-specific investments are, the more likely a market failure is as well as the integration of the activity into the firm. Acquiring another company constitutes one way of integrating transactions and thus of reducing related TCs. Williamson's approach is best suited for an analysis of

vertical M&As and related make-or-buy decisions. Under this approach, vertical integration occurs when it is advantageous for a firm to include the activity within its hierarchy instead of contracting for it on the market. Such a situation is given when the complexity and uncertainty of the transaction are high, when there are only few suppliers so that the small number problem becomes relevant, when asset-specific investments are needed, when information is not asymmetrically dispersed between the transaction partners, and when the general transaction atmosphere is so unstable that there is no legal certainty and no sufficient market information system. Cooperative arrangements are undertaken when this structure is able to function more efficiently, with lower TCs, than markets or hierarchies. These arrangements are mixed organizational modes with transactions governed by long-term contracts and mutual dependency.

According to Eisenhardt and Schoonhoven (1996), *"the principal approach for understanding when strategic alliances form is transaction cost economics"*. The theory has been effective in predicting vertical integration among suppliers and buyers in mature industries such as automobile manufacturing. However, empirical transactions cost analyses have been limited by a lack of effective and concrete measurements. Measuring TCs directly has not been possible to date, and this has been the origin for major criticisms against this theory. Another limitation of this theory is that the logic of TC minimization does not capture many of the strategic advantages of alliances such as learning, creation of legitimacy, and fast market entry. This theory is most relevant to static efficiency and routine situations (Kootz, 1996).

2.2.1.3 Game theory

A mathematician, John von Neumann, and an economist, Oskar Morgenstern (1953) tried to find a more effective way of solving certain kinds of economic problems. They noticed that *"the typical problems of economic behavior become strictly identical with the mathematical notions of suitable games of strategy"* and so they devised the "Theory of Games". Oddly enough, this new tool turned out to be invaluable in attacking problems in many other areas as well. Büchel (1996: 46-48) presents the theory's JV formation explicative power. According to the author, *"game theory is essentially a question of coordination in the presence of ignorance. In terms of game theory, cooperative arrangements are best explained by the prisoner's dilemma (Axelrod, 1984; Jarillo and Ricart, 1987; Nielsen, 1988; Gulatti, Khanna and Nohria, 1994). The origins of game theory started in a game with two*

players. In the absence of information and communication, the players had to decide whether or not to cooperate with each other (not being aware of what the other will do).² The dilemma exists because the individual behavior leading to optimal joint payoff does not result in the optimal individual payoff. If each player tries to maximize his or her individual payoff, then neither will win. If one player maximizes the individual payoff by not cooperating while the other cooperates, then the non cooperative player achieves the highest possible payoff. If both players cooperate then both players will jointly achieve the maximal payoff. Axelrod (1984) states that individuals or organizations pursue their own self-interest in absence of a central authority forcing them to cooperate.

The basic idea behind the prisoner's dilemma is that the payoff that a firm gets from participating in a cooperative arrangement not only depends on its own action, but also on its partner's action (Gulatti, Khanna and Nohrie, 1994:62). Due to the existence of an optimal individual payoff, partners are not likely to cooperate. If this can be applied to cooperative arrangements, then the failure rates of these arrangements are not as surprising as one might expect. The reason why firms nonetheless engage in cooperative arrangements lies in the expectation they will get more out of a cooperation than if they do not engage in any strategic option. According to Axelrod (1984) the dilemma that the individual payoff is higher in situations of defection can only be solved in repetitive rounds of playing by telling the players first to choose to cooperate, and in the following rounds to choose the strategy that the other player chose. In iterative games, players realize that the benefits of cooperating exceed the costs, they establish reputation for fair dealing... In situations of repetition, game theory helps to explain the existence of trust independent of social norms, relationships, or goal congruence. In iterative games with interdependent outcomes, trust is built through multiple positive outcomes.

The assumption underlying the explanation of cooperating from an economic perspective is that careful analysis prior to the decision to cooperate is the most critical success factor (Contractor and Lorange, 1988; Axelrod, 1984). Having discussed the reasons and goals for formation should be a major positive factor in this context (Contractor

² The game builds on the assumption that the outcome of the choices is unknown, each player chooses independently and the game is played more than once (Sydow, 1992).

and Lorange 1988:25). Game theory, in particular, views the strategic choice of players as the primary determinant of success in alliances. Thus, this perspective would propose that the choice for potential payoffs is the crucial factor in the development of cooperative arrangements. This choice determines whether partners will cooperate and build trust throughout the relationship”.

2.2.2 Organizational perspective

In contrast to the economic perspective, which focuses on the profit-maximizing function of the firm, the organizational perspective attempts to explain organizational behavior and differences in the forms of organizations. Research within this perspective focuses on individuals in organizations, internal processes, organizations and their external relationships to the greater environment. The focal point of this perspective is the management of environmental uncertainty and the reduction of complexity in order to maintain stability. The organizational theory literature tries to answer the following questions: How do cooperative arrangements remain autonomous while collaborating with others? How do they maintain stability and reduce complexity? Within this perspective, one can differentiate among a number of different theoretical approaches, in particular, two of them explain quite well the occurrence of cooperative arrangements.

2.2.2.1 Resource dependency theory

According to Büchel (1996), “the resource dependence model (Pfeffer and Salancik, 1978) stipulates that organizations are not able to internally generate all the resources and functions required to survive. Therefore, they must enter into relationships with organizations in their environment. According to the resource dependence model, relationships are established in order to exercise power over another organization and its resources (Van de Ven, 1976; Aldrich, 1976; Pennings, 1980; Van de Ven and Walker, 1984). In order to gain control over critical resources, organizations may follow two strategies: 1) reduction of uncertainty through vertical integration or acquisition 2) reduction of uncertainty through cooperation. Pfeffer and Salancik (1978) propose that organizations enter into cooperative arrangements under the following conditions: 1) common interest, 2) interdependence, 3) moderate degree of interaction, 4) existence of barriers of integration, 5) moderate uncertainty and 6) manageable size of the cooperation.

Due to the inherent problems connected with interorganizational relationships, the resource dependence model views the employment of cooperative arrangements as an unstable strategy.

Resource scarcity is perceived or assumed to be the motivating force prompting organizations to influence, control or exercise power. This model is based on the assumption that the formation of cooperative arrangements requires loss of decision-making power and autonomy, a factor to which organizations seem to have an aversion to. In order to avoid the loss of autonomy through increasing dependency on resources, organizations establish relationships with others to compensate for the initial loss in autonomy. In cases where relationships cannot be established to compensate for the loss of autonomy, organizations increase the dependency of others.

The avoidance, utilization, and development of dependence among organizations are seen to be the driving forces for the development of cooperative arrangement. This model regards the establishment and maintenance of cooperative arrangements as a result of changing patterns of resource dependence through the exercise of control. By concentrating on the reduction of environmental uncertainty in order to control resources, the resource dependence model focuses on external motivations rather than the internal functioning within a cooperative arrangement as the key driving force in their development."

2.2.2.2 Population ecology theory

Another perspective explaining the formation and development of cooperative arrangements is offered by population ecology (Hannan and Freeman, 1977 and 1984; Aldrich, 1979; McKelvey and Aldrich, 1983). Büchel (1996), argues that instead of looking at organizations, this approach centers on populations, collectives, or communities³. "The population ecology approach argues that the survival of populations is a result of organizational adaptation (external fit) to environmental uncertainty. Environmental uncertainty is perceived to be a result of insufficient knowledge about the environment (Cook 1977). Development of populations is perceived to occur through the processes of variation, selection and retention.

³ Populations are a homogeneous group of organizations in a certain industry (Aldrich, 1979).

Variation is planned and unplanned managerial action, selection is a result of misfit between organization and environment and retention is the reproduction of organizations (Hannan and Freeman, 1984).

Structural inertia is the focus of analysis for population ecologists. The natural environmental selection process will decide about the future survival of organizations (Hannan and Freeman 1977). Structural inertia is defined as the inability of organizations to adjust to the dynamic environment, organizational inefficiency, and the need for environmental legitimacy (Hannan and Freeman, 1984). The origins of this inertia may be internal (political processes, communication, etc.) or external (limited rationality, societal norms, etc.). Population ecologists view the formation and development of cooperative arrangements as a response to environmental uncertainty (Aldrich, 1979). Partners enter into cooperative arrangements in order to achieve stability, predictability, and dependability (Pennings, 1981; Aldrich, 1979). If environments are turbulent, then cooperative arrangements become attractive in order to cope with the environment, even though the costs are high (Hannan and Freeman, 1977). The costs arise out of the organization's tendency to ensure variety.⁴

According to Aldrich (1979), three factors are seen to be important for the development of cooperative arrangements: 1) adaptation to the environment through the division of labor and the control of power, 2) establishment of plans to achieve common objectives, and 3) taking the coordination role in the environment. By positing these factors, Aldrich (1979) not only applies principles of population ecology but also resource dependence in order to explain the development of cooperative arrangements."

⁴ Variety within organizations is achieved by internal differentiation. Population ecologists differentiate between specialized and generalized organizations, each being capable of surviving, yet due to different characteristics. Specialized organizations possess structural and cultural characteristics that are in alignment with the environment in order to achieve maximum efficiency. Generalized organizations demonstrate a number of different characteristics that enable them to survive in several environments. Cooperative arrangements are viewed as mid-range between these two types of organizations (Hannan and Freeman, 1977). Since neither alignment nor variety is visible within cooperative arrangement, they incur additional costs.

Population ecologists stress the importance of natural selection. This approach is deterministic and does not take into account the internal processes of social construction like organizational learning, decision-making, or power asymmetries. Nowadays, however, population ecologists have revised their position and suggest that internal processes do play an important role in organizations (Sydow, 1992).

2.2.3 Strategic perspective

Strategic management is associated with competitiveness, long-term growth, and survival of organizations or countries. Growth and survival within the strategic perspective are related to the competitive position. Büchel (1996) explains that *"strategic management is oriented towards shaping the firm's future by anticipating change (Dean and Cassidy, 1990) or by the process of making and implementing strategic decisions (Bowman and Asch, 1987). The term strategy implies a thought out plan of action or a defined policy for achieving an objective. Strategic management is an interdisciplinary approach that integrates several business disciplines, and cuts across organizational boundaries. Consequently its objective is to provide tools for effective and efficient management of organizations as complete systems. Due to this interdisciplinary approach, strategic management deals with a broad range of problems such as strategic formulation, planning methods, control systems, competition analysis, decision-making processes, political processes, and so on.*

The strategic management literature distinguishes between strategy process and strategy content research (Huff and Reger, 1987). According to Büchel (1996), "strategy process can be classified into three dimensions, strategy formulation and implementation research; prescriptive and descriptive research; and finally rational-analytical and incremental-political models of research. Strategy formulation, which has received the widest audience, is a decision-making process that is concerned with the development of objectives, the examination of resources, and the analysis of environmental constraints in order to achieve the set objectives. Instead, strategy implementation is concerned with the operationalization of the objectives, translating them into organizational structures and procedures in order to attain measurable goals. Regarding the second stream of process research, it examines alternative functions exhibited by strategies. Prescriptive strategies build on a rational model whereby management is able to search, analyze, and then decide upon options. The belief in the

creation and implementation of strategies through planning methods is the basic concept of prescriptive strategies, Mintzberg (1990). Descriptive strategies oppose this rational view of management (March and Simon, 1958; March and Olsen, 1979) and postulate that individual and organizational decision-making, political processes, and anarchy play important roles in strategic management. The possibilities of influencing and creating an organization are limited within this perspective. The third dimension posits that strategies are either intended or emergent.

The traditional concept of strategy formulation concentrates on the strengths and weaknesses of a firm. Most tools used to strategically position a company in the industry highlight on the product-market side (Andrews, 1971). Porter's (1980) criteria used to analyze the strengths and weaknesses are industry characteristics, degree of competition, barriers to entry, existence of substitute products, and buyer and supplier power. Differences in performance between firms are explained by a company's ability to produce products in markets that differentiates the company in terms of the above mentioned characteristics."

2.2.3.1 Resource-based view of the firm

The resource-based view of the firm proposes that resources instead of products define the competitive position of a firm (Wernerfelt, 1984; Barney, 1991). This approach sees firms with superior capabilities and / or organizational structures as profitable not because they engage in strategic investments that may deter entry and raise prices above long-run costs, but because they have markedly lower costs, or offer markedly higher quality or product performance. This approach focuses on the rents accruing to the owner's scarce firm-specific resources rather than the economic profits from product market positioning (Teece, Pisano and Shuen, 1990).

Probst, Büchel and Raub (1996) explain that the idea that resources can bestow a competitive advantage is not new. Various authors have discussed this issue under the terms distinctive or firm-specific resources (Hitt and Ireland, 1985), core competence (Prahalad and Hamel, 1990), core capabilities (Leonard-Barton, 1992 and 1995) or strategic assets (Dierckx and Cool, 1989). According to Barney (1991), firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge etc.

The above mentioned authors postulate that "firms develop internal capabilities or knowledge over time, which enable them to produce superior products. The unique aspect of such a perspective is its long-term orientation. The development of core competencies or capabilities is a long-term investment, which results in improved performance in the future. Competencies are an interrelated mix of organizational knowledge, which leads to an increase in the problem-solving capacity of an organization. It is the unique set of strategically relevant organizational knowledge which eventually leads to increased returns for a company (Prahalad and Hamel, 1994).

The resource-based view of the firm provides several criteria which indicate the necessary conditions for sustainable competitive advantage. In order to obtain a competitive advantage, this theory postulates that strategic assets must have four attributes: 1) they must be valuable, 2) they must be rare, 3) they must be difficult to copy, and 4) there cannot be strategically equivalent substitutes. Core competencies and value-creating disciplines are not distributed equally among firms. The resource difference between firms constitutes therefore, an additional explanation for strategic alliance occurrence. To improve their strategic position, firms must seek for resources that enable them to share costs and risks from other companies (Eisenhardt and Schoonhoven, 1996). International strategic alliances may be effecting a partial redistribution of skills among partners (Hamel, 1990).

The distinction between acquiring skills in the sense of gaining access to them (by taking out a license, utilizing a subassembly supplied by a partner, or relying on a partner's employees for some critical operation) and actually internalizing a partner's skills has seldom been clearly drawn. This distinction is crucial. As long as a partner's skills are embodied only in the specific outputs of the venture, they have no value outside the narrow terms of the agreement. Once internalized, however, they can be applied to new geographic markets, new products, and new businesses. For the partners, an alliance may be not only a means for trading access to each other's skills - what might be termed as quasi internalization, but also a mechanism for actually acquiring a partner's skills - de facto internalization. This process of knowledge acquisition occurs through learning."

2.2.3.2 Organizational learning theory

Organizational learning is the process by which the organization's knowledge and value base changes, leading to improved problem-solving ability and capacity for action (Probst and Büchel, 1997). For Probst, Büchel and Raub (1996), the concept of learning originated in psychology and focused on learning at the individual level. Behavioral psychologists defined learning as a behavioral change of individuals, (Hilgard and Bower, 1966). Later, learning theorists emphasized cognitive processes as key determinants of individual learning (Bandura, 1986). Instead of focusing on change in behavior, cognitive psychologists focused on change in the state of knowledge, which creates the potential for changing behavior. The organizational learning concept has transported the idea of individual learning to the organizational level where the same distinction exists between behavioral and cognitive learning processes (Inkpen and Crossan, 1995). It is, however, important to note that change in behavior without a corresponding change in cognition, or change in cognition without a corresponding change in behavior, are transitional states since they create a tension between one's beliefs and one's action. This tension can only be resolved by integrating a change in behavior with a change in cognition so beliefs and actions are in accordance with each other. Essentially, organizational learning is an increase of the organizational knowledge base, which leads to the enhancement of the problem-solving potential of a company (Probst, Büchel and Raub, 1996).

We mentioned earlier that the number of JVs surged in the last decades. According to Inkpen (1995) *"an important explanatory factor for the JV and SA trend is the argument that collaboration provides a platform for organizational learning, giving partner firms access to the skills and capabilities of their partners (Hamel, 1991; Kogut, 1988; Westney, 1988). Viewing JVs as learning opportunities provides an alternative to mutual alliance value creation. JVs can provide firms with access to the embedded knowledge of other organizations. This access creates the potential for firms to internalize partner skills and capabilities. Huber (1991) referred to this process as grafting, the process by which organizations increase their store of knowledge by internalizing knowledge not previously available within the organization. In a JV, two or more organizations are brought together because of their complementarity and their differences. The differences in partner skill areas are the fuel for learning. Whether or not the differences are identified and internalized determines whether learning occurs. While still rather small, there is a growing body of*

theoretical research (Kogut, 1988; Pucik, 1991; Westney 1988) and empirical studies (Dodgson, 1993; Hamel, 1991; Simonin and Helleloid, 1993) addressing the issue of JVs as mechanisms for organizational learning. This stream of research has begun to address some of the important questions associated with how organizations exploit collaborative learning opportunities."

2.2.3.3 Summary

Preceding sections presented different JV theoretical explanations. The economic perspective had a focus in the development of market power, the costs of coordination and in potential future payoffs. The organization perspective concentrated in the degree of resource dependence of organizations and in the environmental adaptation they needed to survive. Finally the strategic perspective focused in capabilities and learning. Table 3 summarizes the theoretical motives explaining JV formation.

The theoretical presentation provided a rich and varied explanation about strategic alliances formation and development. As we indicated in the beginning of this section, building a theoretical framework is useful to identify pertinent research questions and to interpret the data collected during the field work. The following section synthesizes research in the JV area, we do not focus on a particular topic regarding JVs such as control, human resources, culture or performance, we adopt instead a systemic view of the JV covering many variables that influence its life cycle. The purpose of the next section is to present the principal empirical findings regarding JVs and to identify some gaps that will be then the scope of our empirical work.

Table 3: Theoretical motives explaining JV formation

- | |
|--|
| <ul style="list-style-type: none">• Monopoly theory: Companies form JVs in order to increase their monopoly power. Their objective is to increase their market share and to raise barriers to entry to make more profits.• Transaction cost theory: Companies form JVs when this structure is able to function more efficiently, with lower TCs, than markets or hierarchies. The objective here is cost minimization.• Game theory: Companies form JVs when managers think that they will get more out of a cooperation than if do not engage in any cooperation. The objective here is to maximize payoffs. |
| <ul style="list-style-type: none">• Resource dependency theory: Companies form JVs because they are not able to generate internally all the resources and functions they require to survive. Therefore, they must enter into relationships with other organizations in their environment.• Population ecology theory: The focus here is not the organization but a population of firms. According to this theory, firms engage in JVs as a response to environment uncertainty. Partners engage in JVs in order to achieve stability, predictability and dependability. |
| <ul style="list-style-type: none">• Resource based view of the firm: Companies form JVs because distinctive or firm-specific resources are not distributed equally among firms. To improve their strategic position, firms must seek for resources that enable them to share costs and risks from other companies.• Organizational learning: Companies form JVs to acquire knowledge, to internalize the skills of a partner. |

2.3 Systemic view of international joint venturea: creation, design, management and performance evaluation.

Globalization characterizes our actual world economy, in this new and changing environment the perspective of major players has shifted from national to international. This movement began with a few big MNEs after the second World War and was followed progressively by a large number of smaller firms (Bircher, 1991; Usunier, 1992; Buckley and Glaister, 1996; KostECKI 2000: 2). Strategic alliances have played and are playing an important role in this process (Contractor and Lorange, 1988; Dunning, 1995, 1997; Boyd and Dunning, 1999). As already mentioned we focus in this study in a particular form of strategic alliance, the JV.

The number of JVs used for international operations has dramatically increased over the last decades (Stopford and Wells, 1972; Beamish and Banks, 1986; Lorange and Probst, 1987; Harrigan 1988; Gomes-Caseres, 1989; Anderson 1990; Zeira and Shenkar, 1990; Geringer, 1991; Roos, 1994; Spekman, Isabella, MacAvoy, and Forbes III, 1996; Adarker, Adil, Ernst, and Vaish, 1997). Garrette and Dussauge (1995: 42) explain that American scholars started investigating this complex form of organization since 1960. The first investigations related to strategic alliances had two major foci. On one hand, researchers were concerned with the internationalization process of big American companies and studied the JV as a tool for international expansion. These JVs were subsidiary companies created by MNEs in selected countries aiming to penetrate new geographical areas. The principle of the JV consisted in sharing the capital of the subsidiary with a local partner. The JV's activity was limited to the commercialization and eventually to the production of goods of the MNE in the host country. On the other hand, researchers had an anti-trust orientation, they studied JVs between American firms in the US domestic market trying to evaluate their impact on competition (Pfeffer, and Nowak, 1976).

Much research has tried to identify the determinants of success and failure of IJVs (Schaan, 1983; Killing, 1983; Beamish, 1984, and 1985; Harrigan, 1986; Lorange and Probst 1987; O'Reilly, 1988; Brown, Rugman, and Verbeke, 1989). The main variables studied in order to explain and analyze the strategic motives, structure and output of this form of cooperative strategy were: ownership structure, control, culture, and performance, (Contractor and Lorange, 1988).

According to most researchers in this field (Beamish, 1985; Harrigan, 1988 (b); Gomes-Caseres, 1989; Geringer, 1990; Beird, 1990; Lane and Beamish, 1990; Bleeke and Ernst, 1992; Shaker and Galal, 1994; Swierczek and Hirsch, 1994; Fey, 1995; Sweeney, 1996) there is a high risk of failure associated with this complex form of organization.

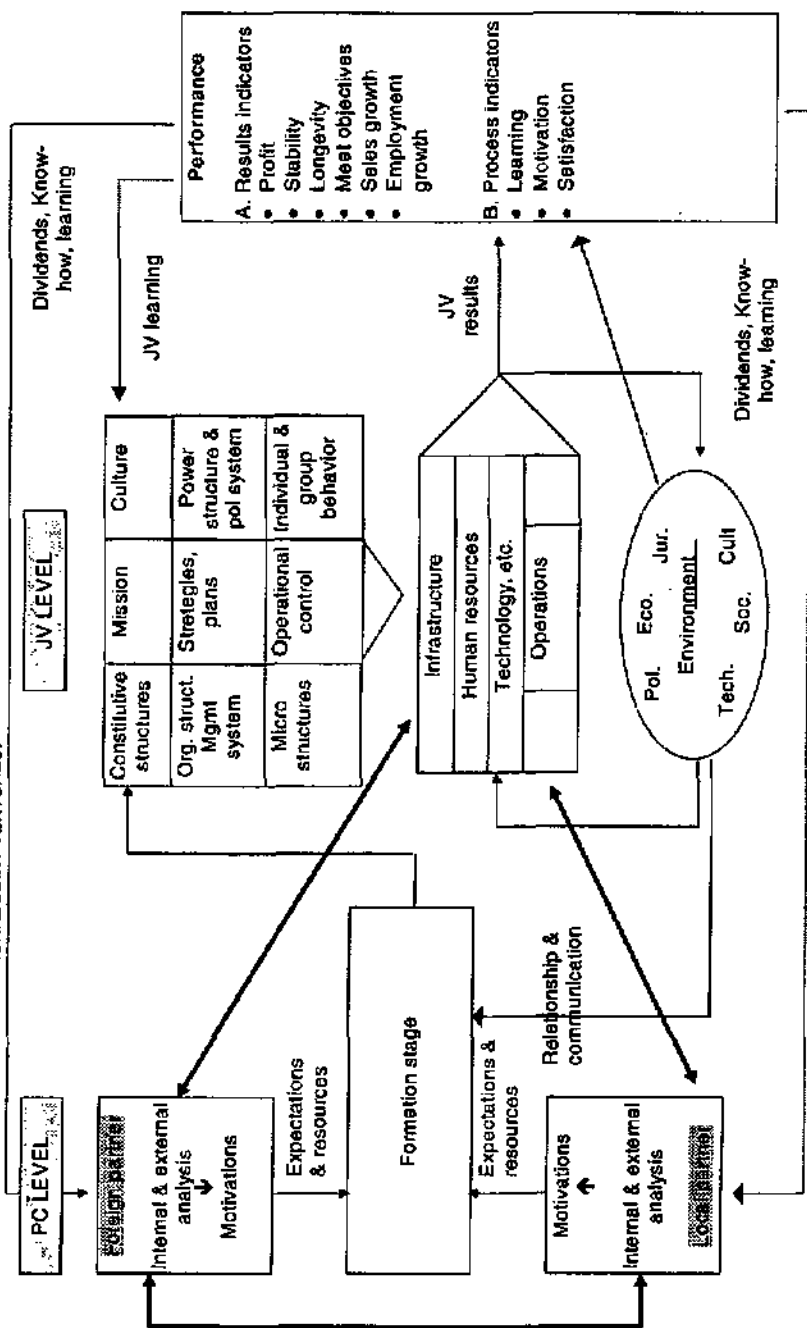
The organization of this section follows the model presented in figure 4. We begin by presenting findings concerning the JV's formation process, which starts with the initial internal negotiation of the parent companies, and ends with the formal agreement (a detailed view of this process is presented in figure 5). Then the management concept developed by Bleicher (1991), a St. Gallen scholar, is used to present some important aspects of JV management research. The elements studied in this concept and the environment in which the JV operates constitutes important factors that shape the JVs' value chain. Some important ideas related to the environment are resumed. Another interesting topic that is covered is the one concerning the relationship between PCs and the JV, which includes communication and trust issues. Finally, research related to performance indicators in JVs is presented.

The life cycle concept applied to the JV, Kogut (1988: 39) is omnipresent in this dissertation. JVs, like any other organization, undergo a cycle of creation, institutionalization, and termination. Termination of a JV is though not to be seen always as a failure, like the literature sometimes suggest it, but as a natural end of a cooperation arrangement after the initial objectives have been attained.

Another concept that is omnipresent in this dissertation is learning. Organizational learning is the process by which the organization's knowledge and value base changes, leading to improved problem-solving ability and capacity for action (Probst and Büchel, 1997). JVs offer great opportunities for learning because they gather different partners in a common project that involves knowledge exchange in different areas such as international operations, technology, management techniques, markets, and so on.

We begin the literature review referring to the systemic view of international JVs presenting its formation process.

FIGURE 4: SYSTEMIC VIEW OF INTERNATIONAL JOINT VENTURES.



2.3.1 Formation process

The JV formation process starts with an initial internal negotiation carried out by each PC and finishes with the formal agreement. Büchel (1996: 146-152) presents a framework of the JV formation stage that we will use to structure this section. Figure 5 shows the overall process.

JV formation develops through the progression of a sequence of events: from the informal to the formal phase. A number of conditions can enhance or impede these phases and thus increase or decrease the likelihood of achieving a formal agreement.

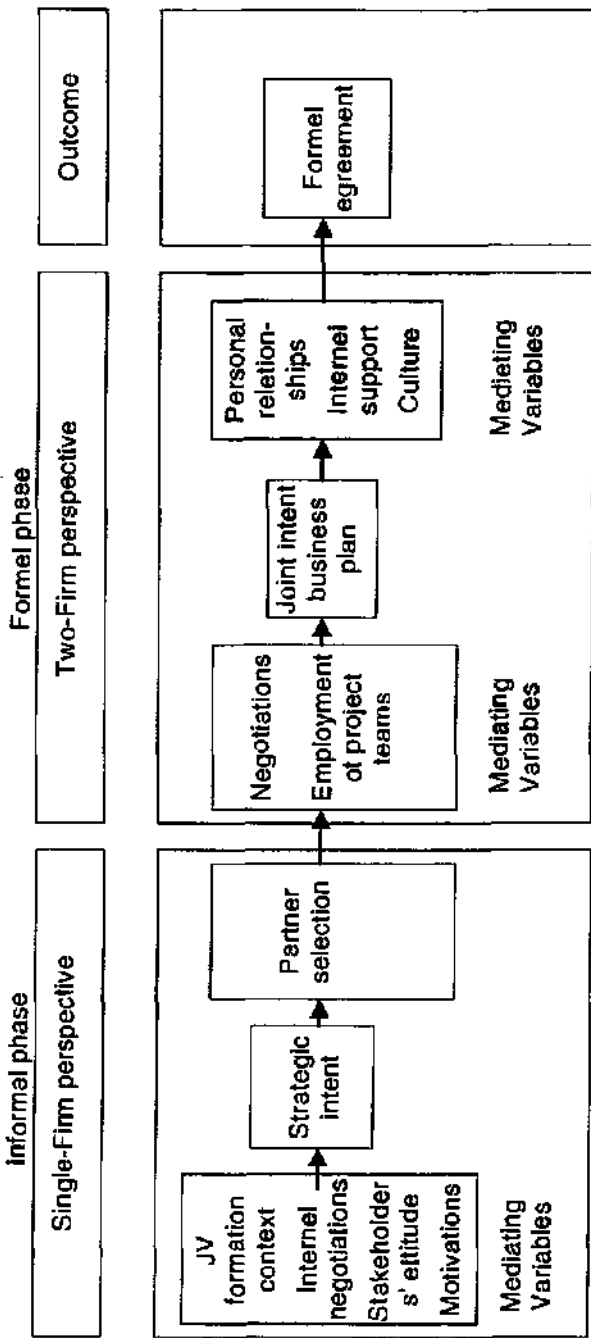
2.3.1.1 Informal phase

During the informal phase, the parents take a single firm perspective and identify their strategic motives for entering into the venture. Each company focusing on its strategic intent⁵ independent of the intent of the other characterizes this phase. Key stakeholders negotiate these motives internally and reach consensus about the decision to pursue formal negotiations. Obtaining stakeholders blessing is a critical political consideration (Lorange and Roos, 1991). The initiators of the JV have to ensure that important internal and external stakeholders will see the benefits of the JV and thus support it. According to these authors some questions that need to be addressed include the following:

- Are relevant ownership groups convinced that the venture will be desirable from their stockholder viewpoint?
- What will be the effects on the company's reputation and the response of the stock market?

⁵ Strategic intent encompasses the motives which according to Hamel and Prahalad (1989) includes three dimensions: The essence of winning, commitment to cooperation and definitions of stability.

Figure 5: Joint venture's formation stage framework



Source: Adapted from Büchel, B. (1996). *Development of Cooperative Arrangements: Building a Framework Through Qualitative Research* Doctoral dissertation, University of Geneva.

- Are key members of the top management team likely to be willing to pursue the venture - by seeing how the alliance will not be a threat to their own power and careers?
- To the extent that the alliance could represent a threat to any person or group, how can they be convinced to work towards the alliance's subsequent success?
- How will customers, suppliers, other alliance partners, financiers, and competitors react?

It is important to carry out initial preparatory efforts to increase the likelihood that major stakeholders accept and promote the idea of a particular cooperative strategy. The purpose here is to ensure that key individuals and groups see the overall rationale for the alliance. If these stakeholders, at least tacitly, bless the venture at an early stage, the chances for smooth implementation increase. Consequently, if active resistance emerges among key stakeholders at an early stage, it is probably wise to call off the formation efforts then and there. Exercising such realism can save a great deal of time and energy (Lorange and Roos, 1991).

At this point, we identified the first group of propositions that form the interview guide (See appendix 1). Since obtaining stakeholder blessing is a critical political consideration that will set the JV's foundations, it would be of great interest to know: What was the attitude of major stakeholders in the European / Argentine JVs included in our study? If conflicts existed, how were they solved? And which were the major difficulties in the process?

2.3.1.1.1 Internal negotiations, strategic intent and partner selection

As a result of changes in a firm's internal and / or external environment providing new threats and opportunities, firms are suddenly confronted to the decision of entering into new businesses. They can do it alone, if they have the resources and skills required or they can adopt a cooperation strategy to benefit from complementary resources. Researchers have showed interest in the different advantages that a firm can get in entering into a JV. Some authors have studied JVs between firms from DCs (Franko, 1971; Janger, 1980; Killing, 1983; Berg and Friedman, 1981; Harrigan, 1984; Geringer, 1986; Blodgett, 1987b; Contractor and Lorange, 1998; Kogut, 1988; Gomes-Caseres, 1989; Hamel and Prahalad, 1989; Brown, Rugman, Verbeke, 1989;

Anderson, 1990; Bleeke and Davis, 1992; McGee, Dowling; and Megginson, 1995; Fey, 1995; Richter, 1995; Shaughnessy, 1995; Buckley and Glaister, 1996; Böchel, 1996; Borde, Whyte, Wyant, and Hoffman, 1998) others have focused in JVs between firms from DCs and LDCs (Friedmann and Beguin, 1971; Tomlinson and Willie, 1982; Beamish, 1984, 1985, 1987, 1994, 1995; Artisen and Buckley, 1985; O'Reilly 1988; Zeira and Shenkar 1990; Beird, Lyles and Wharton, 1990; Lane and Beamish, 1990; Newman, 1992; Kostecki, 1993; Adarkar et al., 1997; Miller, Glen, Jaspersen, and Karmokolias, 1999).

Contractor and Lorange (1988: 10) present a representative list of the advantages that potential partners can offer when forming an alliance, no matter their geographical origin (Tables 4 and 5). The list of motives is general and is the fruit of an effort to synthesize various investigations. It does not apply to all JVs. Harrigan (1984), argues that each configuration of motives for a specific JV will depend on external environments, including industry structure, competitive behavior, technology and government policies.

There are not many empirical studies that specifically examine the strategic motivations of foreign firms to form JVs with LDCs' partners. Research undertaken in various geographical areas of the world pointed out the fact that government constraints or legislation were the primary reasons for multinational firms to accept to form JVs in LDCs (Tomlinson, 1970 in India and Pakistan, Stevens, 1974 in Latin America, Gullander, 1976 in various LDCs, Janger, 1980 in various LDCs, Tomlinson, 1982 in Mexico, Miller, Glen, Jaspersen, and Karmokolias, 1999 in Asia and Latin America). Another gap that has been partially filled in recent years is the exclusion of the local partner's perspective in the different investigations.

Beamish made an important contribution to the literature with his 1984, 1985, 1987, 1994, and 1995 work, among others. In his 1987 article, he analyzed JVs between U.S., UK, and Canadian multinationals and Caribbean firms. His findings supported the ones of previous research in LDCs (Tomlinson, 1970 in India; Stevens, 1974 in Latin America; Gullander, 1976 in different LDCs; Janger, 1980 in multiple LDCs; and finally Tomlinson, 1982 in Mexico), he found that one of the most important motivations for a DC company to form a JV in a LDC was to overcome government legal constraints because it was very often the only way to penetrate the local markets.

Table 4: Strategic contributions of joint ventures (a)

Strategic contributions	Authors
Risk reduction Product portfolio diversification; Dispersion and/or reduction of fixed costs; Lower total capital investment; Faster entry and payback	(Beamish, 1987; Kogut, 1988; Gomes, 1989; Hamel, 1989; Zaira, 1990; Lorange and Roos, 1991; Kosteckii, 1993; Bleake, 1992; Shaker, 1994; McGee, Dowling, and Megginson, 1995; Gill and Butler, 1998; Aderkar and al., 1997; Miller, Glen, Jaspersen, and Karmokolias, 1999).
Economies of scale and rationalization Lower average cost from higher volume; Lower cost by using comparative advantage of each partner; Access to LDCs markets / access to world markets	(Tomlinson, 1982; Beamish, 1987; Gomes, 1989; Baird, 1990; Beamish and Lane, 1990; Zaira, 1990; Lorange and Roos, 1991; Bleake, 1992; Newman, 1992; Shaker, 1994; Fey, 1995).
Complementary technologies, patents Technological synergies Exchange of patents and territories	(Gomes, 1989; Shaker, 1994; Richter, 1995; Shaughnessy, 1995).
Co-opting or blocking competition Defensive JV to reduce competition; Offensive JV to increase cost and/or lower market share for a third company	

Source: Adapted from Contractor, F. and P. Lorange (1988), *Cooperative Strategies in International Business*, Lexington Books, Lexington.

Table 5: Strategic contributions of joint ventures (b)

Strategic contributions	Authora
Overcoming government mandated investment or trade barrier Receiving permit to operate as local entity because of local partner Satisfying local content requirements	(Beamish, 1987; Gomes, 1989; Lorange and Roos, 1991; Shaker, 1994; Gill and Butler, 1996; Adarkar and al., 1997; Miller, Glen, Jaspersen, and Karmokolias, 1999).
Initial international expansion Benefit from local partner's know-how Benefit from foreign partner's know-how	(Tomlinson, 1982; Beamish, 1987; Gomes, 1989; Beamish and Lane, 1990; Shaker, 1994; Fey, 1995, Miller, Glen, Jaspersen, and Karmokollas, 1999).
Vertical quasi-integration Access to raw materials Access to technology Access to labor Access to capital Regulatory permits Access to distribution channels Benefits from brand recognition Establishing links with major buyers Drawing on existing fixed marketing establishment.	(Tomlinson, 1982; Beamish, 1987; Beamish and Lane, 1990; Baird, 1990; Zeira, 1990; Newmen, 1992; Shaker, 1994; Fey, 1995; McGee, Dowling, and Megginson, 1995; Adarkar and al., 1997, Miller, Glen, Jaspersen, and Karmokolias, 1999).

Source: Adapted from Contractor, F. and P. Lorange (1988), *Cooperative Strategies in International Business*, Lexington Books, Lexington.

Other motivations that foreign partners had when forming JVs in LDCs were to obtain local knowledge and local management. The main motivations from the local partner perspective were, to acquire state of the art technology and equipment, as well as to improve their export opportunities.

Newman (1992: 68) added the fact that companies in mature economies need new markets, low-cost labor, raw materials and rewarding investments, which are factors that transforming economies aspire to provide. In the other hand, transforming economies need as mentioned by Beamish (1987) capital, managerial expertise and access to world markets.

Considering that there is no research regarding European and Argentine JVs and that the economic, political, and social situation has changed drastically in most LA countries during the 90's with the introduction of free market policies, the assumption that JVs between foreign companies and Argentine ones are created to overcome government legal constraints does not seem opportune⁶. Under these circumstances, it is interesting to examine in our empirical work what are the actual strategic motivations that European and Argentine companies have to form JVs.

Once both partners have made internal and external analysis and determined which are their needs and that a collaboration strategy fulfills better their internationalization process, they will start looking for a firm that will allow them to pursue their strategy.

2.3.1.1.2 Partner selection

Prior research has suggested that the choice of a particular partner is an important variable influencing JV performance, since it influences the mix of skills and resources that will be available to the new venture and thus the JV's ability to achieve its strategic objectives (Geringer, 1991). The best JVs, meaning those who work ensuring the long-term

⁶ Argentina's legislation in the 90's is free of all the classic restrictions to foreign capital that existed during the protectionist era, such as a register for foreign investments or the need for official approval to operate in certain sectors or carry out certain types of operations. There are no requirements for the entry or repatriation of capital, whether total or partial and there are no reserve ratios or limits on the remittance of profits obtained locally. MNEs receive the same treatment as local companies from the point of view of taxation, labor laws, access to raw materials, etc.

viability of the business, are those formed by companies that recognize their specific long-term needs and recruit partners to fill these needs. A partnership must operate on the principle of fair exchange.

There must be value in the relationship for both parties. If long-term need and commitment between partners exist it is probable that a JV will be stable and successful (Lane and Beamish, 1990, Miller, Glen, Jaspersen, and Karmokolias, 1999).

Careful identification and selection of appropriate partners is a very difficult task. This has proven to be the most important consideration of any involved in the establishment of a JV. Complementary characteristics and mutual confidence are crucial. Experience indicates that a period of a year is not an excessive amount of time to spend in establishing the relationship. Many problems with partners that arise out of a lack of understanding or the absence of a common interest can be readily identified in the course of an extensive and extended mutual evaluation process. Differences like short-term versus long-term profit goals, definition of performance and so on, can be resolved or can form the basis for the withdrawal from a proposed partnership (Stevens, 1974; Lane and Beamish, 1990).

As already mentioned, a high risk of failure associated with JVs has been determined in previous research. A major factor in failure is poor selection of partners (Shaker, 1994: 88). Non-rigorous search for a partner may result in taking the first person that comes along, which most likely is a mistake. Often companies rely on the reputation and public image of their potential partners. However more thorough research is necessary to determine the potential compatibility of a partner, it is a time consuming effort and there is no substitute for active, rigorous exploration (Beamish, 1987).

Harrigan (1988) looked at the differences among sponsoring firms with respect to each other (and in relationship with their jointly sponsored ventures) to see if they influence the efficacy of their strategic alliances. She focused on two aspects, diversification and partner asymmetries. Concerning diversification, results suggest that ventures are more successful where partners are related (in products, markets, and / or technologies) to their ventures or horizontally-related to them than when they are vertically-related or unrelated to their ventures.

Partner asymmetries argues that ventures are more likely to succeed when partners possess complementary missions, resources, capabilities, managerial capabilities and other attributes that create a strategic fit, in which the bargaining power of the venture's sponsors is evenly matched. Partners needs to be engaged in a particular strategic alliance are stabilizing to a venturing relationship, while a wide variety of asymmetries are destabilizing to a venture relationship. Results showed that asymmetries in relative asset size, national origin, and venturing experience are stabilizing to a venturing relationship but harmful to venturing performance (success) because their heterogeneity exacerbates differences in how partners value their venture's activities. Beamish's and Lane's results (1990: 95) confirm Harrigan's (1988) work. The best advice while looking for a partner seems to be: use industrialists of some stature in the same or a similar business, if you can find them. The next best choice would be a firm that offers a complementary service such as product distribution. As you move further from your business base, the ability of your partner to contribute substantially to the venture and to provide qualified general managers (GMs) decline.

Foreign firms willing to enter into a LDC market also have to choose between a local government owned firm and a private local firm as a partner. Beamish (1985) compared the stability rates⁷ of JVs between foreign partners and both local government and local private partners. Whether in mining or manufacturing, those ventures involving government partners had an overall instability rate of 56% - 58%. This was much higher than the 43% instability rate of JVs between foreign and local private partners (See table 6). Raveed and Renford (1983) found that MNE executives favor forming JVs with local, private firms over other forms of equity investment, including both wholly owned subsidiaries and the other JV forms.

⁷ The stability or instability rate is measured by the liquidation of a JV, or by significant changes in its ownership.

Table 8: JV stability rates: Government vs. Private partners.

Samples	Government Partner		Private Partner		Total JVs
	Stable	Unstable	Stable	Unstable	
Beamish (1984) Manufacturing	5 (42%)	7 (58%)	31 (57%)	23 (43%)	66
Stuckey (1983) Aluminum industry	12 (44%)	15 (56%)	23 (70%)	10 (30%)	60
Total	17 (44%)	22 (56%)	54 (62%)	33 (38%)	126
			Subtotal	Subtotal	
			12 (100%)	54 (100%)	
			27 (100%)	33 (100%)	
			39 (199%)	87 (100%)	

Source: Based on Beamish, P. W. (1985). "The characteristics of joint ventures in developed and developing countries", *Columbia Journal of World Business*, fall, pp. 15.

As we have seen, many factors play an important role in the PSP (Type of partner selected -Government or private-; partner asymmetries, partner reputation, mutual confidence, strategic compatibility, and so on). In chapter 4 we analyze some major characteristics of the processes in European and Argentine JVs and we compare them with prior findings. We try to give an answer to questions such as: What were the characteristics of the PSPs in terms of time? Criteria for partner evaluation and selection? Business origin of the partner? And partner asymmetries? We also pay special attention to learning issues that occurred at this stage of JV formation. What were the principal lessons managers drew from the process? (Refer to appendix 1). Once a firm has found a potential partner for establishing a JV, which means one that matches the best the evaluation criteria established at the motivation analysis stage, negotiations to develop a formal agreement begin.

2.3.1.2 Formal phase

Two companies attempting to reach a common understanding documented by the contractual agreement characterizes the formal phase. In the formal phase, the parents reach consensus about joint intentions for the JV. The parties enter with different strategic intents and seek to find compatible definitions of the joint intent, which allow both parties to benefit from the JV. This is manifested by the business plan (BP), which essentially captures the areas of strategic match and mutual gain. Strategic match involves assessing the strategic intents of both partners and developing a joint intent, which lays out the expected sources of gain (Büchel, 1996).

The negotiation process that both partners have to undertake to reach consensus focus on several important issues, each of which requires several decisions by senior executives. According to Killing (1982) they include the following issues:

- What will be the legal form of the JV? Will it be equity or non-equity based? What will be the contributions of each participant? How will they share profits?
- How will the JV be managed? Companies have two major options: dominant and shared JVs. In dominant JVs, one of the partners has a controlling position in managing the new venture, by determining the number of seats on the boards of directors and the number of employees in key management roles. Conversely in shared JVs, management of the project is distributed equally among partners.

Clearly dominant or shared JVs require different management arrangements. Killing (1980) as well as Janger (1980) describe, among other authors, the high level of internal conflict and complexity of decision-making in 50/50 JVs. They argue that JVs with a dominant partner perform better. A critical determinant of JV performance appears to be control exercised by parents over a venture's activities (Gerlinger, 1989; 1991). But the exercise of effective control over JVs is difficult for the parent organizations because they are often unable to rely solely on their ownership position to determine the JV's behavior and management. Other modes of influence are instead required such as, the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms. Table 7 presents research findings concerning ownership, control and performance.

- ➔ What will be the relationship between the JV and its PCs? Will it function as an autonomous entity or is it expected to serve as a supplier to its parents or a distributor of their goods? Under what conditions will the venture be permitted to compete with PCs?
- ➔ What is the expected life span of the venture? Under what conditions will it be dissolved?
- ➔ What is the procedure the partners should follow in dissolving the JV? How will proceeds from dissolving the venture be divided among participants?

These negotiations lead to the establishment of a joint intent and a BP. This process increases the clarity of the role of the JV. Geringer and Frayne (1993) argue that the definition of a common intent is the key characteristic of the formal formation phase. While the authors do not explicitly state how this common intent is reached, Büchel (1996) argues that the employment of project teams facilitates the establishment of a congruent intent between partners *"There are a number of mediating factors in the formal formation phase. The employment of functional project teams with members of both partners can facilitate reaching a congruent understanding of the goals and tasks of the JV. Project teams can help to lay out detailed objectives and expected deliverables so that expectations about the JV become clear to both partners"*.

Tabla 7: Conceptualization and operationalization of JV control

Dimension of control	Findings
<i>Mechanisms</i> by which control may be exercised. Firms frequently relied on majority ownership or voting control to achieve effective management control of a JV's activities	Tomlinson (1970), Friedman & Beguin (1971), Stopford & Wells (1972): A majority position in equity or votes can ensure some degree of control but not always. Behrmann (1970), Friedman & Beguin (1971) suggested that control was not a strict and automatic consequence of ownership, other mechanisms are available to firms to exercise control: right of veto, representation in management bodies, and special agreements on technology or management. Companies might also be able to rely on their technical superiority and managerial skills to a means of guaranteeing participation in the management of day-to-day operations. The nominations of one of a firm's managers as the JV GM (Rati, 1978), as well as employment of different ownership structure arrangements (Gullander, 1976), could represent further means of exercising managerial control. Shaan (1983) demonstrated the breadth of mechanisms available to parent firms for exercising control over their JV's (positive and negative control mechanisms)

The extent of control exercised over a JV. Most studies examining this latter dimension have conceptualized control as being dependent upon the centralization or the locus of the decision-making process.	Dang (1977), defined control as the autonomy of a subsidiary and measured the construct with a decentralization index based on seventeen key decisions. He found no link between equity ownership and control. Killing (1983) used a similar perspective, he studied control in 37 JVs in DCs. He employed interviews of PC executives and JV GMs to examine parent firm's influence on 9 types of decisions: pricing, policy, product design, production scheduling, manufacturing process, quality control, replacement of managers, sales targets, cost budgeting, and capital expenditures. He inquired whether each decision was made by: 1. The JV GM alone, 2. The local partner alone, 3. The foreign partner alone, 4. By the GM with input of the local parent, 5. From the foreign parent or 6. From both parents. He classified the ventures as dominant partner; shared management; or independent. Bearnish (1984) used the same scale in JVs in LDCs. Several scholars have criticized the locus of decision-making perspective for presenting a very limited and incomplete view of JV control, Skinner (1968), Brooke & Remmers (1978). For ex. Several studies demonstrated the existence of means other than decision-making for exercising effective control over JVs. Another criticism of this perspective is its implicit suggestion that parent firms seek to control the overall JV, rather than targeting specific activities or processes perceived as crucial for the achievement of the JV's or the parents' strategic objectives. Schaan (1983) demonstrated that firms tended to seek control over specific "strategically important activities" rather than over the whole JV. These findings support the notion of parent firms' parsimonious and contingent usage of resources for controlling JVs. This suggests that the exercise of effective control should emphasize selective control over those dimensions a parent perceives as critical, rather than attempting to control the entire range of the JV's activities. This notion of selective control efforts raises the prospect of a split control JV, one in which a parent firm may exercise dominant control over only a few dimensions of the venture.
Schaan found that control also had a focus dimension that parents may choose to exercise control over a relatively wider or narrower scope of the JV's activities. Geringer (1986) supports this view.	Geringer, J. M. and L. Hebert (1989). "Control and performance in international joint ventures" <i>Journal of International Business Studies</i>, Summer, pp.235-254.

Lorange and Roos (1991) completed Killing's list of negotiation issues, they argued that the first analytical effort towards the establishment of the joint intent should yield answers to questions such as:

- What are the broad, readily apparent objectives of this strategic alliance for each partner?
- How can the two parties complement each other to create common strengths from which both can benefit?
- How important is the strategic alliance within each partner's corporate portfolio?
- Are there any problems with the alliance due to its relative closeness to the core business of the partners?
- Are the partners leaders or followers within the particular business segment?
- Do they combine to create strength, or is it a case where the sick join the sick?
- Are the partners sufficiently culturally similar?

In short, is there an obvious resulting strategic win-win match between the two partners? If an apparent win-win match emerges, the chances for success in implementation increase.

The second analytical phase involves the development of an overall strategic plan for the JV. This phase may need more detailed information gathering by the two prospective partners, taking into consideration the following questions:

- How do the prospective partners view the market potential?
- Whom do they view as the key competitors, and how will they want to compete with them?
- What is the worst case scenario, particularly for achieving planned revenue levels?

In total, how viable is the strategic alliance idea as a BP? Turning, then, to internal implementation issues, one must ask:

- What are each partners relevant and available resources over the short-term and the long-term?
- Is it sufficiently clear who is expected to do what and by when?
- What are the partner attitudes towards long-term cooperation?
- How can this cooperation evolve harmoniously over time without conflicting with other strategic concerns of each partner?

These considerations involve more detailed assessments regarding operational and tactical matters. Lorange and Roos (1991), as well as Kanter (1994), introduce an additional variable that influences the JV formation process; personal relations and chemistry. For these authors, to highlight the personal side of the business relationship is not to deny the importance of sound financial and strategic analyses. But deals often turn on the rapport between chief executives. A relationship based on trust, and commitment will be a key factor in the development of a JV and will be essential when hard times will appear.

Internal support is also an important variable to take into account. This political consideration involves ensuring that a broad range of people within the organization is committed to and enthusiastic about the venture. For Lorange and Roos (1991) some key questions to be asked at this stage are the following:

- Has the venture idea been sufficiently explained throughout the organization?
- Has it been presented with sufficient details to ensure that everyone sees the tasks ahead and can focus on them as an opportunity and not as a threat?
- Are relevant specialists motivated to carry out their specific tasks in a cooperative mode?
- Do the operational staffs have sufficiently complementary styles to simplify their working contacts with the partner organization?

Thus, in order for the entire organization to be prepared for quick task actions during the venture's implementation, everyone must be "sold" on the concept early on. This might diminish the likelihood of a rejection later.

Another mediating variable in reaching a formal agreement is culture. Lane and Beamish (1990), argue that cultural differences hinder the decision-making process in forming JVs. Büchel (1996) found that cultural differences do not hinder decision-making as long as these differences have not been perceived. *"Assumed cultural similarity in the formation process implies that organizational members of both partners perceive that their organizational cultures are similar. Based on this perception, divergent strategic motives are not surfaced due to the belief in the ease of conflict resolution in later stages of development. Assumed similarity in the early phase of interaction in the formation stage facilitates the establishment of the formal JV agreement, but causes conflict at later stages, because once the differences in norms, values and beliefs surface, resolving differences becomes problematic."*

Finally, the contractual arrangement is negotiated. It is composed by the contract and document(s) of incorporation, which specify parent's goals, responsibilities, policies towards the JV, legal structure of the firm, place where it will operate, composition of the board, local employment levels, technology transfer and ownership, royalties, safeguards, conflict resolution, arbitration, jurisdiction, ownership stake, capital contribution, policies towards host country, duration of the JV etc. The more detailed the documents, the less misunderstanding.

Various questions can be raised for our empirical investigation from this formal phase of the JV creation. What were the characteristics of the negotiation processes between European and Argentine firms in terms of strategic match? Time? And attitude towards conflict resolution? What were the roles of chief executives during this process? What was the role played by culture in the creation process of the JV? What are the characteristics of the JV's contracts? What were the major problems faced during this stage? What were the principal lessons managers drew from the process?

The real work, operating the JV, begins after the partner has been selected, and the management structure decided upon. It requires commitment by the corporation to persevere, and to work to achieve its target and not to quit as the inevitable problems appear.

Commitment is necessary for success and is required at each step of the process. Commitment is the most critical factor for successful entry in foreign markets: financial commitment, commitment to customer and partner support, to product integrity, to company employees around the world, to understanding the politics, economics and culture of trading partners, to the building of trust and sharing of information, to the building of cooperative relationships (Lane and Beamish, 1990: 100).

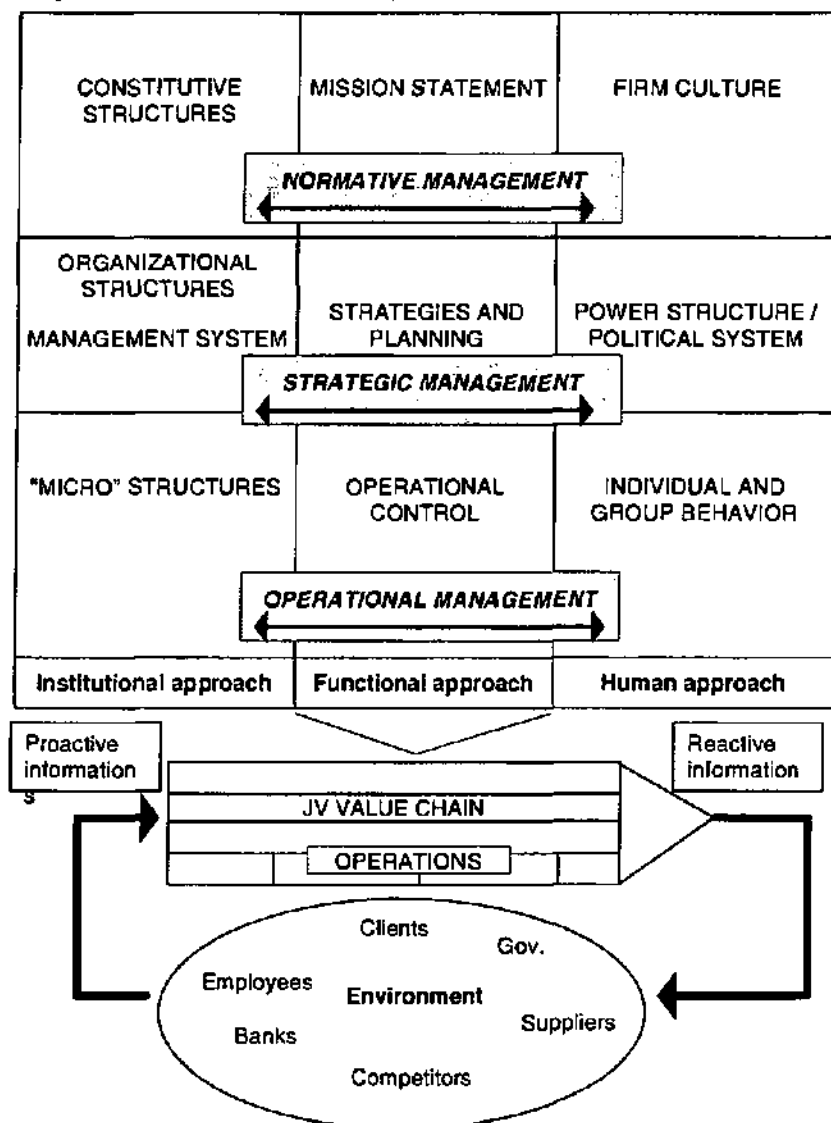
A sense of duty to the venture and partner is the basis on which problems are addressed and solved, changes made, and help provided. Some foreign parents take an arm's length, investment approach to the JV. The foreign parent is reluctant to visit the JV when problems arise and is unwilling to supply special skills to the venture from the parent organization if they are needed. At the other extreme the foreign parent manages the JV as if it were a wholly owned subsidiary. The foreign parent does not like to hold regular meetings and is only willing to include the local partner in discussions if the management contract specifies that they are obligatory. In both cases the foreign partner is forgetting what a JV really is.

We discussed the particularities of the JV formation process, now we are going to focus on the presentation of a management concept and its application to JVs. This is useful to structure the rest of our literature review dedicated to other important issues related to JVs.

2.3.2 Management concept applied to JVs

The concept (Bleicher 1991) presents three approaches of management, a functional approach, an institutional approach and a human approach.

Figure 6: Management concept



1. **The functional approach** is determined by the social function of the firm. It assumes a mission for the firm (In this case for the JV) that is independent of an individual actor; it depends instead on shareholders' expectations. The objectives are determined by the social role of the firm. The principal question to consider is: what are the activities to undertake considering the expectations and the environment situation? Different decisions must be taken regarding:

- The objectives (what to do?);
- The resources (by what means?);
- The procedures (How to act and in what sequence?).

This approach is also called economic, Thiétart (1991), rational or logic, because it is based on a "supreme" firm objective that will determine all managerial decisions.

If managers overuse this approach, a pathology will appear, Thiétart (1991). Plans and strategies will be developed but they will be difficult to achieve because of a lack of consideration of human and structural conditions.

2. **The institutional approach** is concerned with task division, which will determine the structures and relations among persons and organizational units. The principal question to consider is: what is the division and allocation of tasks and activities in the enterprise?

Thiétart (1991) explains that a possible pathology may appear if managers overuse this approach, it is known as "bureaucracy". Managers spend too much time developing rules to regulate the system and do not take enough care of the other managerial tasks.

3. **The human approach.** In the institutional approach, actors are considered in their formal roles, which are assigned by the organization. In the human approach, actors are considered at the level of their individual objectives and behaviors, which are not determined by the economic rationality of the firm. The principal question to consider is: What are the needs and behaviors that ensue from individual motivation?

Thiétart (1991) calls the approach the "political dimension". The pathology that can appear if this approach dominates the others is known as "unpredictable coalition".

The concept also presents three levels of management, the normative management level, the strategic management level and the operational management level.

1. **The normative management level.** Some fundamental decisions regarding a company will be taken at this level. For example at the time of its foundation, the *constitutive structures* will be defined (legal structure of the firm, place where it will operate, organization of the board etc.).

The mission statement will also be defined which will determine what products and services offered to which markets. It will also explain to the public, the firm's economic goals or purpose.

The human aspect of the normative management level is represented by *the culture of the firm*. It concerns the values, norms and ways of thinking shared by management and employees. Culture has a strong influence on behavior throughout the entire firm. The founder's vision often reflects this common state of mind and is not limited to just products and markets.

2. **The strategic management level.** This level follows from long-term planning, but it has some differences:

Long term planning	Strategic management
Rational approach	Includes the human and structural aspects
Extrapolate	Alternative scenarios
Economic environment	Multidimensional environment
Thinking progresses from the actual state	Thinking develops from a future vision
Rather reactive	Rather proactive

The priority at this level concerns the *strategies and plans* that define activities to be undertaken. Managers have to define what products to commercialize and which markets to serve. They also have to find a way to differentiate the firm from competitors and to maintain a competitive advantage.

The different strategies are not developed exclusively at the normative management level (that guides the strategic level). They are also influenced by different actors such as managers that participate to the process, external actors like competitors, clients, distributors, suppliers... Coalitions between different groups of actors and external groups are formed. These *political aspects* play a positive role or function as barriers to strategies.

The global organizational structures are determined at this strategic level. They follow from the different strategies decided by top managers.

3. **The operational management level** is concerned about day to day decisions, particularly individual client orders (production, commercialization, and distribution of products and services). The distinction between repetitive and standardized tasks and unique and individualized tasks is a very important feature of operational management. Plans established at the strategic level have to be adapted to sudden changing conditions in the environment. This equilibrating function is another important feature of the operational management level. Finally, this level of management is very close to customers, and therefore has to manage the direct relation with them. Client's perception of the firm will be influenced by the efficacy of this interaction.

In a functional perspective, the objective at this level is to manage the *client orders*. Quality norms play an important role at this level, defining the procedures to follow to assure a certain quality level. But prevision and standardization have their limits and do not replace a spontaneous reaction to sudden changes. A strategic and normative management that encourages individual responsibility and that allows fast and decentralized decisions in urgent situations can support this type of behavior.

In a structural perspective, operational management concerns *microstructures* at the department level of a firm (for example work teams for a project).

The individual and group behavior is the human perspective of the operational level. Because of the direct contact with clients, employee motivation is an essential priority, particularly for firms working in the service sector. Another important factor at this level is

the quality of working conditions. Behaviors at this level can be influenced by motivation systems (qualifications, rewards...)

We are going to use the management concept as well as the value chain in the following sections in order to structure the rest of the literature review.

2.3.2.1 Constitutive structures

Before presenting the St. Gallen management concept (Bleicher 1991), at the end of section 1.1.1.2: "The JV formation process", we saw that negotiations resulted in a signed JV contract. The JV contract embodies many decisions about the JV constitutive structures, for example the JV legal structure, its location, the composition of the board, local employment levels, the type of technology transfer, the ownership structure, and other aspects such as royalties, safeguards, conflict resolution, arbitration, jurisdiction, capital structure and so on.

The field study will allow us to identify the characteristics of the contractual agreements developed by European and Argentine companies. An important element worth considering is the roles that foreign and local partners play in the JV management. Is there a partner that plays a dominant role or is the management shared? Is the JV autonomous? Is it better to develop a very detailed contract that predicts almost everything or is it better to just set the general lines of the deal?

2.3.2.2 Firm culture

Cultural issues are crucial to multicultural organizations' success. This section begins presenting a general reflection about the cultural question in order to explain the context in which the cultural differences problematic at a firm level takes place. Finally, the section presents the role of cultural differences in JVs.

One of the most influencing researchers regarding cross-cultural issues is Geert Hofstede (1980). He developed a model in the late sixties that still provides the most practical and documented approach to assessing the cultural features of organization and management, helping managers to adapt their styles when confronted to other cultures. He had the opportunity to study the values of a large sample of IBM employees in 50 different countries covering the five continents. According to the author, there are different levels of culture:

- A national level that depends on the nationality of an individual or the country where he emigrated;
- A level corresponding to a regional and / or religious and / or linguistic group membership;
- An industry level that depends on the activity sector where an individual works;
- A firm level that depends on the firm where an individual works (This level corresponds to firm culture in our management concept);
- A level corresponding to a gender membership;
- A level corresponding to a generation, different between grand parents, parents and sons.

The list could be further developed. The important thing to know is that each person belongs to different groups or categories at the same time and that he has different levels of mental programming corresponding to different levels of culture. Mental programs ensuing the different levels of culture are not necessarily in harmony, moreover, in modern life they tend to be in conflict. Religious values may be in conflict with generation values, gender values with firm values etc. (Hofstede, 1994: 26-27). Hofstede based his research on the ideas of American anthropologists such as Ruth Benedict and Margaret Mead who said essentially that all societies, modern or traditional, are confronted to the same fundamental problems, and that only answers given to these problems differ. Hofstede verified empirically the results of the sociologist Alex Inkeles and the psychologist Daniel Levinson who tried to define which were the common problems to all societies twenty years before him. According to these authors, and consequently to Hofstede, four categories of problems represent the dimensions of the different cultures or said in other words, four categories of problems represent the aspects of a culture that can be compared among cultures (Hofstede, 1994: 30-31).

Power distance: or the degree to which the less powerful members of a society accept that power is distributed unequally. The fundamental issue addressed by this dimension is how a society handles inequalities among people when they occur. People in societies exhibiting high power distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low power distance, people strive for power equalization and demand justification for inequalities of power. This has obvious

implications for the way people build their institutions and organizations. In low power distance societies, hierarchy in an organization is seen as an inequality of roles established for convenience, decentralization is preferred, subordinates expect to be consulted, and the ideal boss is a resourceful democrat. At the opposite end of the range, in high power distance societies, hierarchy in an organization is seen as reflecting existential inequalities, centralization is popular, subordinates expect to be told what to do, and the ideal boss is a benevolent autocrat.

Individualism versus collectivism: Individualism can be defined as a preference for a loosely knit social framework in which individuals are supposed to take care only of themselves and their immediate families. Its opposite, collectivism, represents a preference for a tightly knit framework in society in which individuals can expect their relatives, clan or other members of their in-group to look after them in exchange for unquestioning loyalty. The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among its members. It is concerned with whether people's self concept is defined in terms of "I" or "we". In collectivist societies, offending leads to shame and loss of face, employer – employee relationships are perceived in moral terms (like a family link), hiring and promotion decisions take account of the employee's in-group, and management is the management of groups. In individualistic societies, offending causes guilt and loss of self-esteem, the employer-employee relationship is calculative (a contract based on mutual advantage), hiring and promotion decisions are supposed to be based on merit only, and management is the management of individuals.

Masculinity versus femininity: Masculinity represents a preference in society for achievement, heroism, assertiveness and material success. Its opposite, femininity, stands for a preference for relationships, modesty, caring for the weak and quality of life. The fundamental issue here is the way in which society allocates social roles between the sexes. Some societies aim for maximum social differentiation between the sexes and here the norm is that men are given the assertive roles and women the caring, nurturing roles. The maximum social differentiation in these societies will permeate the institutions (mostly populated by men) with an assertive mentality. Such societies become "performance" societies and this is shown even in the values of women. They are termed masculine societies. Other societies strive for minimal social differentiation between the sexes. This means not only that women can take on assertive roles if they wish but, more especially, men are permitted to take on

relationship-oriented, caring roles. These societies, if wealth permits, become "welfare" societies in which caring for all members is an important goal for men as well as women. They are termed "feminine" societies. In feminine countries, the priority is "work in order to live", managers strive for consensus, stress is laid on equality, solidarity and quality of working life, and conflicts are resolved by compromise and negotiation. In masculine countries, on the other hand, people believe in "live in order to work", managers are expected to be decisive and assertive, the stress is on equity, competition and performance, and conflicts are resolved by fighting them out.

Uncertainty avoidance: This is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The fundamental issue here is how a society deals with the fact that time runs one way and the future can never be known: should we try to control the future or just let it happen? Countries exhibiting high uncertainty avoidance maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. Low uncertainty avoidance societies maintain a more relaxed attitude in which practice counts more than principles and deviance from the norm is more easily tolerated. Uncertainty avoidance also has implications for the way in which countries build their institutions and organizations. In high uncertainty avoidance cultures, there is an emotional need for rules, even if the rules never work, time is money, people have an inner urge to be busy and work hard, precision and punctuality are the norm, innovation may be resisted, and security is an important element in individual motivation. In societies exhibiting low uncertainty avoidance, people believe there should be no more rules than are necessary and if they do not work they should be dropped or changed, time is seen as a framework for orientation, hard work is undertaken when needed but not for its own sake, precision and punctuality do not come naturally, and innovation is not seen as threatening.

While the first four dimensions proved to be a valuable model for explaining and predicting culturally derived differences of behavior in many countries, it did not appear to explain what to many observers was self-evidently a fundamental difference in the way of thinking as between East and West. Supplementary research in the Far East identified a fifth dimension, which clarified this difference. (This dimension did not appear in Hofstede's (1980) original research).

Long-term versus short-term orientation: The dimension is closely related to the teachings of Confucius and can be interpreted as dealing with society's search for virtue. Short-term orientation societies generally exhibit strong respect for traditions, a relatively small propensity to save, impatience for quick results and a strong concern with finding the truth. Western societies are typically to be found towards the short-term end of this dimension. Long-term orientation societies show an ability to adapt traditions to a modern context, a strong propensity to save and invest, thriftiness, perseverance in the achieving of results that may be slow to come and an overriding concern for respecting the demands of virtue. The countries of South East Asia and the Far East are typically to be found towards the long-term end of this dimension. In dealing with intercultural issues involving encounters between Western countries, it is usually adequate to refer only to the first four dimensions.

Hofstede's model cannot be used to identify or describe the characteristics of individuals. The model identifies only central tendencies in societies and any attempt to use it mechanistically is likely to lead to error. Secondly, the five-dimension model is only an entry ticket into a society. As we already mentioned it, there are other cultural differences besides those related to nationality (regional differences, regional subcultures...). Finally, while there is much evidence to suggest that national cultures remain remarkably stable over time, it has become clear that the positioning of countries can change progressively, especially on the dimensions of power distance and individualism. The latter dimension, in particular, shows a very significant correlation with national wealth: as nations become richer, the trend is for them to become more individualistic.

According to Banks and Waisfisz (1993) the practical relevance of the model for managers is that they are concerned with the coordination of resources (material, financial and human) for the effective achievement of business objectives. *"From what has been said it will be easily seen that what may be an effective means of coordination in one country may prove to be ineffective or actually counterproductive in another."*

This is particularly true in the area of human resource management (HRM), where the effectiveness of different approaches to such crucial issues as leadership, communication, motivation, reward, appraisal, selection can be highly culture dependent.

The model helps managers to analyze the likely outcome of management techniques and employment policies in different national contexts and to modify or replace them where they can be seen as likely to be dysfunctional.

This is especially important in a world where the overwhelming majority of management "packages" originate in the USA and are based on American cultural assumptions, making them difficult, or even dangerous, to apply in other cultures. If we consider power distance for example, in high power distance societies, employees will be comfortable with a paternalistic management style; there will be no need felt for consultation or involvement of subordinates, in decision-making. Conversely, in societies with low power distance, paternalistic management will have negative connotations and there will be an expectation of some form of consultation with subordinates, though not necessarily through a formalized structure. The feasibility of applying leadership packages such as management by objectives (MbO) will be highly dependent on where the country concerned is positioned on this dimension. It is very unlikely that MbO works in a high power distance culture where respect for the hierarchy will mean that a subordinate will wait for the superior's message (direct or indirect) about what the objectives and the appraisal should be. The same is true for the individualism and collectivism dimension and motivation measures, the masculinity / femininity dimension and competition and rewards systems for employees..."

Using Hofstede's framework, Swierczek and Hirsch (1994) made a study of Western and Asian JVs and built an Asian frame of reference on multicultural management. Table 8 shows the comparison of cultural dimensions of Western and Asian countries. A similar overall cultural profile was established concerning potential Asian partners. This profile would include fewer layers of decision-making, more risk taking, greater group emphasis and higher concern for relationships. Figure 7 shows the characteristics of Western and Asian business basic values.

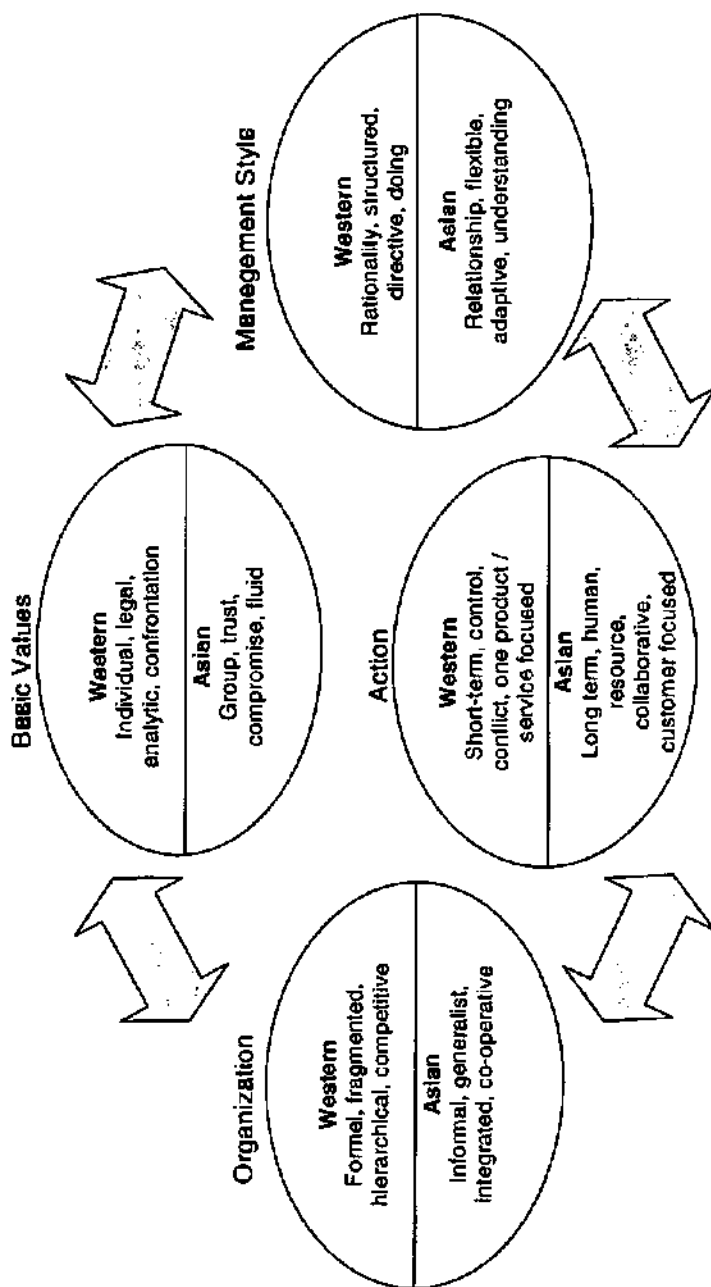
No similar studies comparing DCs and Latin American countries or Asian and Latin American countries have been done despite the increasing number of SAs in the region.

Table 8: Comparison of cultural dimensions of Western and Asian countries

Power distance			Uncertainty avoidance			Individualism			Masculinity		
High	Medium	Low	High	Medium	Low	High	Medium	Low	High	Medium	Low
Indonesia	Hong Kong	Germany	Korea	Pakistan	Hong Kong	France	India	Hong Kong	Japan	Hong Kong	
India	Japan	UK	France	Germany	UK	Germany	Japan	Indonesia		France	
Malaysia	France	U.S.	Japan	Taiwan	India	UK		Korea		India	
Philippines	Korea			Thailand	U.S.	U.S.		Malaysia		Germany	
Singapore	Pakistan				Indonesia			Pakistan		Indonesia	
	Taiwan				Malaysia			Philippines		UK	
	Thailand				Philippines			Singapore		Korea	
					Singapore			Taiwan		U.S.	
								Thailand		Malaysia	
										Pakistan	
										Philippines	
										Singapore	
										Taiwan	
										Thailand	

Source: Based on Swierczek, F. and G. Hirsch (1994). "Joint ventures in Asia and multicultural management". *European Management Journal*, 12(2), pp. 197-209.

Figure 7: Western and Asian basic values:



Source: Based on Swierczek, F. and G. Hirsch (1994). "Joint ventures In Asia and multicultural management". *European Management Journal*, 12(2), pp. 197-209.

Cultural differences in JVs is a complex issue because several levels of culture interact at the same time. Previous paragraphs showed the influence of national culture on HRM. Other levels of culture such as the firm level also play an important role in JV management. Several authors pointed out that cultural differences or distance among partners (at a firm level) can be a major problem in managing IJVs (Datta, 1988; O'Reilly, 1988; Lane and Beamish, 1990; Baird, Lyles, and Wharton, 1990; Swierczek and Hirsh, 1994; Shaughnessy, 1995; Sweeney, 1996). Similar cultural values can reduce misunderstanding between JV partners and culturally distant JVs experience greater difficulty in their interactions (Brown, Rugman, and Verbeke, 1989; Lane and Beamish, 1990; Zeira, 1990). Lane and Beamish (1990) illustrate how cultural differences among JV partners can affect the JV management *"...Very often the culture of LDCs dictates putting family interests ahead of rational business development. Thus, the business is viewed less objectively or in a less detached manner. Conflicts between the foreign and local parents over the future company goals and the distribution and use of profits are frequent..."* The more culturally distant two firms are, the greater the differences in their organizational and administrative practices, employee expectations, and interpretation of and response to strategic issues (Kogut and Singh, 1988; Schneider and De Meyer, 1991). Accordingly, communications between culturally distant partners can be difficult, compounding the coordination problems that exist in any partnership, leaving such JVs vulnerable to managerial conflicts and early dissolution (Camerer and Vepsäläinen, 1998; Lane and Beamish, 1990). The effects of national culture on behavior and management systems can be rather unobtrusive but can still destabilize JVs, prompting Lane and Beamish (1990) as well as Swierczek and Hirsh (1994) to conclude that cultural compatibility between partners is the most important factor in endurance of a global alliance. Barkema, Bell, and Pennings (1996) also showed that JVs or acquisitions were more susceptible to cultural distance than wholly owned subsidiaries (or start-ups) because the former had to contend with both national and corporate cultures, or *"double-layered acculturation"*.

The main lesson to draw from this section is that managers should try to find the best cultural fit while looking for a partner to form a JV. Additionally, they must also adapt the organizational structures and the leadership style to fit with the culture. Finally, managers have to develop a multicultural environment, one where training has to play an important role. *"Training can be used to encourage people to think and behave in ways consistent with the parent's and other stakeholders' cultures"*

objectives and interests. It can also be used as a mechanism for establishing and perpetuating a unique JV culture, one which is appropriate to the venture's specific circumstances" (Geringer, 1990).

The economic and politic context of several Latin American countries has changed considerably in the last decade and some countries like México, Brazil, Argentina and Chile have experienced a FDI boom (UNCTAD 1997). The number of alliances of all kinds has increased (Chudnovsky 1994, América Economía 1994, UNCTAD 1997, Porta 1997, Chudnovsky 1997, Adarkar et al. 1997, Hinkelman 1998), and justifies a bigger effort to study and understand the characteristics of these partnerships. Acknowledging that our research objectives do not focus specifically on cross-cultural issues, our empirical investigation tries to determine what were the most important cultural differences between European and Argentine partners? How did they affect the JV functioning? What was done to reduce the cultural difficulties? and what were the lessons managers took from managing this type of cultural diversity? (See appendix 1).

2.3.2.3 Global organizational structures

JV global organization structures follow from the different strategies established by the board of directors. The main idea that we present in this section is that JVs have self-organizing properties that can be designed and managed to ensure their success (Lorange and Probst, 1987). In the past, much discussion has been focused on how to make JVs more successful. Typically, these discussions have been geared toward developing traditional substantive competitive strategies directed at both the parent and child (strategic content). A second set of approaches for delineating strategic success has focused on how to apply more appropriate management processes to the JV, with particular emphasis on how to delineate plans, how to control the JV, how to come up with appropriate HRM processes, etc. (Process). Strategic content and process go hand in hand.

For Lorange and Probst (1987), properly conceived strategies and processes may often be inadequate if they cannot be adjusted to meet changing circumstances. A dynamic, evolutionary view of the cooperative venture's development may be needed. Consequently, the authors claim that any organization, in order to be successful, must possess self-organizing properties to cope with evolutionary pressures (Probst, 1985, 1987). An organization must adapt and evolve on its own to meet new environmental circumstances. JVs must be similarly flexible.

The reason for many JV failures seem to be that they have not been designed with sufficient adaptive properties to cope with environmental turbulence.

The four self-organizing properties that the authors advocated are: complexity; self-reference; autonomy; and redundancy. Lorange and Probst (1987) defined **complexity** in the context of JVs as follows: *"To label a system as complex is not the same as implying that it is complicated. The question is not only how many elements there are in a system. Rather, the issue is a matter of understanding the nature of the relatedness between the parts, when putting together a highly interrelated network, such as a JV. It is the dynamics that grow with the interrelations and interactions that create complexity. The critical question is: 'How complex is the context within which a JV is supposed to be functioning?' For instance, how many owners are there in the JV, and how many different and potentially irreconcilable strategies do these partners have? How interrelated are the various parts of the value-creating process: manufacturing, the R&D function, distribution, marketing, etc.? How many different strategies is the JV itself supposed to carry out? How many physical locations are there? How many previously autonomous, and thus different types of organizational cultures have been put together into a JV? To what extent must they interact? How turbulent is the environment with which the JV interacts?"*

Self-reference in the context of a JV refers to the ability of its management to develop its own plans and processes, and to its ability to monitor progress and make the necessary corrective and innovative actions. Developing feedback properties in the JV is a key aspect since JV members can learn from their own past. *"A critical design issue is whether the JV is able to develop its own plans and to monitor progress against these plans, so that necessary boundary adjustments may be made and necessary experiential competencies developed. If the JV's planning function is 'split' among the various partners in such a way that less realistic learning and adaptive feedback measures are generated, then the JV will face disadvantages due to this lack of self-reference.*

Similarly, if the control process is delineated so it is not self-corrective, needed changes due to dysfunctional design aspects imposed by the partner's realistic feedback and adaptation measures may be impossible. The management system may be too fragmented and bureaucratized, and have too many irreconcilable parts to create a self-referencing organization. *Is the JV organization complete, stable and flexible enough to interpret the experiences from its initial actions, and build up a learning*

process, adapt and evolve over time? Or, are the managers so fragmented in their loyalties, and are organizational tasks carried out on such an ad-hoc basis, that learning will not occur? Thus self-reference, in the form of ability to develop corrective and innovative boundary redefinition, based on creative feedback, learning and development is critical in order to make a JV successful. As the JV evolves, the roles of various stakeholders involved will change - some may become more active, visible and powerful - others may eventually withdraw. Moreover, these realignments must be commonly shared, understood and accepted through the self-referencing process" (Lorange and Probst 1987).

Autonomy refers to the ability of the joint venture to have control of its destiny. Thus a JV should have sufficient control of its resources, independent of its parents, and its management should exhibit a reasonable degree of freestanding independence within its environment.

Finally, **redundancy** refers to the ability of the JV to have alternative ways of carrying out its functions, in other words, there are potentially more resources, management capacities and processes embedded in the system than strictly are needed. *"A JV should be set up to have alternative ways of carrying out its value creation tasks if something should go wrong. For otherwise, it will have little or no flexibility to deal with emergencies. Therefore, redundancies up to a certain limit, in the form of a certain amount of built-in flexibility, are another necessary precondition for developing successful self-organizing JVs".*

Furthermore, Lorange and Probst (1987) emphasized that a management process that is critical to strengthening self-organization is strategic planning. The coming section introduces the authors' thoughts regarding the JV planning process.

2.3.2.4 Strategies and planning

Strategic planning for a JV differs from one JV to another depending on the type of relationship existing between the JV and its parents. They identify three possible archetypes (Lorange and Probst, 1987). The first type refers to a JV in which both parents are actively engaged in the same business as their JV. Making this type of JV work may be quite demanding. In this situation, the strategic planning process is complex, and very difficult to work out since the JVs' planning process needs to be in consonance with the parents' planning processes. This parallel planning may result in the JV being relatively dependent on the parents.

The second type refers to a JV in which one parent is highly active in the same business as the JV, but the other parent is not. Here the strategic planning process is less complex than in the first type. Still, the planning process of the JV needs to be developed in parallel with the active parent and in parallel with the passive parent. However, more adaptive responsibilities will be shared between the active parent and the JV.

The third type refers to a JV in which none of the parents is active in the same business as the JV. In this situation, the strategic planning process is simple since it reflects an autonomous JV. The process should produce independent objectives, strategies and implementation programs. Furthermore, the process should incorporate past experiences and on-going adaptations into plans.

In sum, strategic planning for JVs and alliances is a complex process. The pressures to change and demands imposed by the PCs and other involved organizations make planning a difficult task.

2.3.2.5 Power structure / Political system

According to Anderson (1990), the JV organizational politics are much more complicated than those of wholly owned subsidiaries. The reason behind this is that JVs have multiple parents, which often are viewed as "outsiders" by PCs' personnel, who question their commitment to the corporation. Thus, JVs are more likely to become scapegoats and "political footbells" especially when the parent itself has performance problems. Divisions of the parent may find it easy to blame the JV for their own shortcomings. Headquarters personnel may become suspicious and hypercritical of the venture, particularly if an explanation for corporate shortcomings is needed. Moreover, JVs are particularly easy to criticize with impunity because venture managers simply cannot be as visible to a parent as most subsidiary managers are. Hence, JVs are especially vulnerable players in the game of corporate politics.

We are going to study the JV performance problematic in a further section, nevertheless we open a short parentheses to discuss about the political problems that performance measurement can raise in a JV. Anderson (1990) explains that performance measurement can be a very delicate task, and that most JVs should not be evaluated using the standard operating procedures that corporate headquarters apply to wholly owned divisions with conventional business objectives. One important reason is that the interests of the JV and the parents are often in conflict. For example, a venture may enjoy excellent market

acceptance and provide high return on investment, which is good performance from one parent's viewpoint. Yet another of the parents may be displeased because the venture refuses to use one of its divisions as a supplier. From one parent's perspective, then, the JV is performing poorly. Indeed, the same venture may be rated very differently depending on the viewpoint adopted. Parents that evaluate performance strictly in accord with their own interests, as they do it with subsidiaries, risk alienating their partners. Performance evaluation requires incorporating multiple viewpoints, if only to forecast the partner's reactions and future behavior.

Planning, organization and JV control issues are also going to be studied during the empirical investigation, we are going to try to understand how these processes are carried out in our group of European-Argentine JVs. Some of the elements that we want to investigate concern the way in which the JV's strategic planning is carried out? Which JV actor(s) is (are) in charge of the process? How did JV partners share the JV control? Is there a partner who has more control over strategic activities and the other over operational activities? How are key decisions taken? (Refer to section 1).

2.3.2.5.1 Relationship and trust

Nowadays, the competitive challenges of organizational growth, globalization, and expansion through strategic alliances, the ability to effectively develop and maintain strategic partnerships and alliances among competitors (Kanter 1994, Hamel and Prahalad, 1994) and multicultural / multilingual relations (Cox and Tung, 1997) has become a critical competence, a corporate asset. Kanter (1994) defined it as the "collaborative advantage". This section presents some issues related to the relation between JV partners underlining the importance of trust.

According to Kanter (1994), a well developed ability to create and sustain fruitful collaborations in the global economy, gives companies a significant leg up. Yet too often, top executives devote more time to screening potential partners in financial terms than to managing the partnership in human terms. They tout the future benefits of the alliance to their shareholders but don't help their managers create those benefits. They worry more about controlling the relationship than about nurturing it. In short, they fail to develop their company's collaborative advantage and thereby neglect a key resource.

Alliances and therefore JVs have three fundamental aspects. First, they must yield benefits for the partners but they are more than just the deal. They are living systems that evolve progressively in their possibilities. Beyond the immediate reasons they have for entering into a relationship, the connection offers the parties an option on the future, opening new doors and unforeseen opportunities. Second, alliances that both partners deem successful involve collaboration (creating new value together) rather than mere exchange (getting something back for what you put in). Partners value the skills each brings to the alliance. Third, they cannot be "controlled" by formal systems but require a dense web of interpersonal connections and internal infrastructures that enhance learning (Kanter, 1994).

Relationships between companies begin, grow and develop - or fail - in ways similar to relationships between people. Not two relationships follow the same path, but successful alliances generally unfold on five overlapping phases (Kanter, 1994):

1. **Courtship:** Two companies looking for compatibility (ability to work together), capacity (complementary strengths and resources) and commitment (medium-long-term willingness to cooperate) meet and are attracted (Cauley de la Sierra, 1994). To be successful in this stage, companies must do a deep self-analysis. Relationships get off to a good start when partners know themselves and their industry. Chemistry is another factor influencing this stage; deals often turn on rapport between chief executives. Spekman, Isabella, MacAvoy, and Forbes III, (1996) illustrate this point, they found that there is an inextricable linkage between the business of the alliance and the interpersonal relationship between the key alliance players. One manager of a successful JV they studied observed: *"...the personalities involved in the alliance got on extremely well and felt that they had a common view as to the way the world is going and what each company could do to help the other. This has been the thread that runs through the whole relationship thus far and is one that we are very keen to protect because it seems to us to be absolutely fundamental to our success."*

The courtship period will test compatibility on broad historical, philosophical, and strategic grounds: common experiences, values and principles, and hopes for the future. While analysis examines financial viability, leaders can assess the less tangible aspects of compatibility.

2. **Engagement:** The two companies draw up plans and close the deal. What starts out as personal rapport, philosophical and strategic compatibility, and shared vision between two companies' top executives eventually must be institutionalized and made public.

Meeting the family: The rapport between chief executives and a handful of company leaders must be supplemented by the approval, formal or informal, of other people in the companies and of other stakeholders. Also, each partner has other outside relationships that need to approve of the new tie (Kanter, 1994). As more people get involved the relationship begins to become depersonalized. Success in the engagement phase of a new JV still depends on maintaining a careful balance between personal and the institutional.

The vows: Third-party professionals - lawyers, investment bankers, and their staffs - play their most important roles at this point in the process. But if they dominate, the relationship can become too depersonalized and lose the leaders' vision (Kanter, 1994).

3. **Discovery of differences:** The newly partnered companies, like couples setting up housekeeping, discover they have different ideas about how the business should operate. As actual projects get under way, many more people filling many more roles must work with the members of the other organization. This broader involvement threatens to undermine the commitment forged at the top, for several reasons. First, people in other positions may not experience the same attraction and rapport as the chief executives did. Second, employees at other levels in the organization may be less experienced in working with people from different cultures. Third, usually only few staff people are dedicated full-time to the relationship. Others are evaluated on the performance of their primary responsibilities and therefore often neglect duties relating to the new alliance (Kanter, 1994).

Operational and cultural differences emerge after collaboration is under way. They often come as a surprise to those who created the alliance. Differences in authority, reporting, and decision-making styles become noticeable. The most common conflicts in relationships occur over money: capital infusions, transfer pricing, licensing fees, compensation levels, and management fees. All operational dissimilarities require working out. More communication than anyone anticipated is necessary, and different languages make things even harder.

Companies that are good at partnering take time to learn about the differences early and consider them as events unfold (Kanter, 1994).

Respect versus resentment: People will take the time to understand and work through partnership differences to the extent that they feel valued and respected for what they bring to the relationship. Mistrust, once introduced, sets off a vicious cycle. It makes success harder to attain, which means someone has to be blamed for the lack of success. Respect that builds trust begins with an assumption of equality: all parties bring something valuable to the relationship and deserve to be heard (Kanter, 1994).

4. **Bridging those differences:** In this phase the partners develop techniques for getting along. Kanter (1994) explains *"active collaboration takes place when companies develop mechanisms - structures, processes, and skills - for bridging organizational and interpersonal differences and achieving real value from the partnership. Multiple ties at multiple levels ensure communication, coordination and control. The most productive relationships achieve five levels of integration"*. The first, is strategic integration, which involves continuing contact among top leaders to discuss broad goals or changes. The second is tactical integration, which brings middle managers or professionals together to develop plans for specific projects or joint activities, to identify organizational or system changes that will link the companies better, or to transfer knowledge. The third is interpersonal integration, which builds a necessary foundation for creating future value. As relationships mature, the network of interpersonal ties between members of the separate companies grows in extent and density (Bircher, 1995). Broad synergies born in paper do not develop in practice until many people in both organizations know one another personally and become willing to make the effort to exchange technology, refer clients, or participate on joint teams. And finally, the fifth level of integration is cultural integration, which requires people involved in the relationship to have the communication skills and cultural awareness to bridge their differences.
5. **Internal change:** Each partner discovers that as a result of its accommodation to the ongoing collaboration it has changed internally. Productive relationships usually require and often stimulate changes within the partners. Learning and borrowing ideas from partners is part of realizing the full value of the relationship. Because collaborative ventures often make new demands, managers involved in the relationship must be able to vary their own companies' procedures to

make venture-specific decisions. Companies with strong communications across functions and widely shared information tend to have more productive external relationships. Thus, other desirable internal changes include greater cross-functional team work and exchange of ideas. Many business fail to realize the full potential from their relationship because internal barriers to communication limit learning to the small set of people directly involved in the relationship Kanter (1994).

Effective management of relationships to build collaborative advantage requires managers to be sensitive to political, cultural, organizational and human issues. Trust is an important variable that plays a determinant role in this process. In inter-firm relationships, researchers credit trust with lowering TCs in more uncertain environments (Noordewier, John, and Nevin, 1990), thereby providing firms with a source of competitive advantage (Barney and Hansen, 1994). Trust also facilitates long-term relationships between firms (Ganesan, 1994, Ring and Vande Ven, 1992) and is an important component in the success of strategic alliances (Browning, Beyer, and Shelter, 1995; Gulatti, 1995). Within organizations, trust contributes to more effective implementation of strategy, greater managerial coordination (McAllister, 1995), and more effective work teams (Lawler, 1992).

This body of the literature inspired several questions of our empirical research (See appendix 1): What are the particularities of European and Argentine firms regarding their relationships, are they based more on collaboration or mere exchange? What is the role of trust in the different JVs? What is the role of commitment in the life of the different JVs? Partner needs ensue from the motivations of each partner. Is the fulfilling of these needs a cause of the deterioration of the relationship, or do new needs appear and allow the renewal of interest in the JV?

2.3.2.6 Individual and group behavior

A review of the literature on personnel and managerial behavior in JVs reveals several limitations (Zeira and Shenkar, 1990). First, from the relatively numerous studies on JVs, only few concentrate on personnel management. The major findings on personnel in JVs are, in fact, byproducts of studies focusing on other issues. This is quite surprising, as the popularity of this form of international operation is constantly increasing, and as the unique structure of JVs suggests managerial and personnel processes differ from those occurring in other types of business organizations. Second, the managerial and personnel problems

in JVs are rarely compared to those encountered in unimultinational corporations on one hand, or to the problems encountered in international partnerships, international mergers or in wholly owned subsidiaries of MNE on the other hand, so as to determine the similarities and differences between these types of organizations. Finally, the differences in research settings, contexts, and methodologies add to the difficulty in reviewing the studies and synthesizing their findings (Shenkar and Zeira, 1987). The objective of this section is to present a picture of some important aspects involved by this strategic function in JVs.

As some authors have remarked, the role of HRM is critical to the achievement of desired outcomes in JVs (Shenkar and Zeira, 1987; Lane and Beamish, 1990; Geringer and Frayne, 1990; Teagarden 1990; Schneider and Cyr, 1996; Sweeney, 1996). Although there are clearly strategic benefits derived from JV formation, managing the "people interface" poses numerous difficulties. Shenkar and Zeira (1987) summarize prevalent personnel problems in JVs and potential problems that have been overlooked by the human resources literature (Table 9).

The authors also point out the fact that many fundamental personnel issues such as career development, termination of service, demotion, absenteeism, employee attitudes, leadership patterns and styles, control patterns, motivation, job design, on- and off-the-job training, the status of women, relations between management and labor unions, job rotation among different employee groups, staff-environment interaction, and participation in decision-making and management have been ignored in the research of JVs.

Shenkar and Zeira (1987) also present a classification of eight different employee groups in JVs, each with its distinctive characteristics:

1. **Foreign parents expatriates:** Nationals of the country in which the headquarters (HQ) of the foreign parent (s) is (are) located, and who are assigned by that parent(s) as expatriate managers to the JV.
2. **Host parent transferees:** Host country nationals who are employed by the host parent(s) and transferred to the JV from HQ or from one of the subsidiaries of that parent(s).
3. **Host country nationals:** Nationals of the host country who are hired directly by the JV and employed in it.

Table 9: Personnel issues related to JVs

Problem	Description
Staffing	A gap between the actual and desired composition of the work force of JVs is mentioned for several groups of employees: a) foreign and host parent managers in headquarters (HQ) responsible for staff selection; b) foreign parent expatriates transferred by the foreign parent to work in the JV; c) host parent transferees; and d) host country nationals employed by the JV.
Promotion	As in wholly owned subsidiaries, blocked promotion of host country nationals in the JV and restrictions on transfers from the JV to HQ of the host end foreign parent firms are identified as problems for those host country nationals who are recruited directly by the JV. These employees discover that top positions usually are reserved for foreign expatriates or for parent transferees. At the same time, difficulties in returning to the parent firm following service in the JV are expressed by expatriates of the foreign parent, who also experience an "axial syndrome".
Loyalty	Conflict of loyalty to the JV versus the PCs is an important problem for most employee groups in the JV system. Loyalty problems arise from the multiplicity of entities involved in the JV framework; JV employees quickly learn that promoting the goals of one entity may decrease the effectiveness or profits of the others.
Decision-making	Policy makers in JVs discovered that decision-making is a particularly complicated process because of the conflicting expectations of at least three different task environments. This is especially prevalent when the goals of the venture are stated in its documents of incorporation are ambiguous or general. The synchronizing of different objectives, beliefs, and attitudes in the decision-making process is still an annoying issue.

Problem	Description
Delegation	There is a tendency among PCs to limit the delegation of authority to the JV staff.
Unfamiliarity	Feelings of strangeness and lack of familiarity of each employee group with the other host and/or foreign components is a general problem in JVs. (for ex: unfamiliarity with the environment of the host country, language problems, lack of knowledge of the organizational climate and procedures of the other parent)
Communication	Communication blockages are often mentioned in the literature. Although interpersonal relations are important in all geographically dispersed business, they are more important in JVs because the objectives of two or more parents must be reconciled by the JV staff. Both cultural differences and multiparenthood are cited as potential sources of communication problems in JVs.
Information	A tendency to screen information has been observed in several studies. Some reasons for screening information are suspicion regarding the latent intention of the other parent and the protection of technological knowledge.
Compensation	Dissatisfaction with compensation gaps is a major problem for host country nationals. Although this problem also is common to wholly owned subsidiaries staffed by expatriates, it affects JVs to a greater extent because the existence of more reference groups increases the potential for feelings of relative deprivation. Related to the problem of dissatisfaction with compensation policies are the difficulties in assessing the performance of the JV staff. This may be caused by the different procedures and performance standards of the PCs.

Source: Based on Shankar O. and Y. Zeira (1987), "Human resources management in international joint ventures: directions for research", *Academy of Management Review*, 12(3), pp. 546-557.

4. **Third country expatriates of the host parent(s):** Third country nationals who are neither nationals of the host country nor of the foreign parent(s)' countries, and assigned by the host parent(s) to work in the JV.
5. **Third country expatriates of the foreign parent(s):** Third country nationals who are assigned by the foreign parent(s) to work in the JV.
6. **Third country expatriates of the JV:** Third country nationals who are recruited directly by the venture.
7. **Foreign headquarters executives:** Policy makers at the HQ of the foreign parent(s) who play a major role either at the HQ or as board members of the JV.
8. **Host headquarters executives:** Policy makers at the HQ of the foreign parent(s) who play a major role in the functioning of the JV or as board members of the JV.

The classification is useful to determine which category of employee is affected and how it is affected by each personnel problem. Besides identifying the HRM problems that JVs face and the groups of employees that are affected by those problems, we find in the literature other studies that reflect, among others, about cultural differences and their impact on HRM (Lane and Beamish, 1990; Baird, Lyles, and Wharton, 1990; Banks and Waistisz, 1993; Swierczek and Hirsh, 1994; Sweeney, 1996), and about HRM as a means of JV control (Geringer and Frayne, 1990). Some interesting reflections of such investigations follow.

2.3.2.6.1 Culture and HRM

Basing their investigations on Hofstede's work, Banks and Waisfisz (1993), show the practical relevance of the model for managers. The latter are concerned with the coordination of resources (material, financial, and human) for the effective achievement of business objectives. The section referring to culture in this dissertation showed that what may be an effective means of coordination in one country may prove to be ineffective or actually counterproductive in another. This is particularly true in the area of HRM, where the effectiveness of different approaches to such crucial issues as leadership, communication, motivation, reward, appraisal, selection can be highly culture dependent. The model helps managers to analyze the likely

outcome of management techniques and employment policies in different national contexts and to modify or replace them where they can be seen as likely to be dysfunctional. This is especially important in a world where the overwhelming majority of management "packages" originate in the USA and are based on American cultural assumptions, making them difficult, or even dangerous, to apply in other cultures. An example on each dimension of the model follows to reinforce the point (Banks and Weistisz, 1993).

"Looking first at the dimension of power distance, we have already noted that in high power distance societies, employees will be comfortable with a paternalistic management style; there will be no need felt for consultation or involvement of subordinates, in decision-making. Conversely, in societies with low power distance, paternalistic management will have negative connotations and there will be an expectation of some form of consultation with subordinates, though not necessarily through a formalized structure. The feasibility of applying leadership packages such as management by objectives (MbO) will be highly dependent on where the country concerned is positioned on this dimension. It is very unlikely that MbO works in a high power distance culture where respect for the hierarchy will mean that a subordinate will wait for the superior's message (direct or indirect) about what the objectives and the appraisal should be.

Turning next to Individualism/collectivism, we can see, for example that, theories of motivation based on self-actualization such as Maslow's "hierarchy of needs" are likely to work well in individualistic societies, where esteem and self-actualization are indeed likely to be the highest of motivators, with "belongingness" needs consigned to a lower place in the hierarchy. This is, however, unlikely to be the case in collectivist countries where people will tend to have an overriding need for actualizing their in-group: "belongingness" will come before esteem and self-actualization as a motivator. In an individualistic society, nepotism is generally considered to be objectionable, and there may even be rules forbidding members of the same family working in the same department. In collectivist countries, the domains of work and family more easily overlap and employing many members of the family will generally be considered desirable rather than the reverse.

If we then look at masculinity/femininity we see that in masculine societies competitiveness between fellow workers is seen as a good thing, the strong should win and rewards should be distributed according to performance. In a feminine culture, competitions between

colleagues is to be deprecated: solidarity between fellow workers is prized, the strong should help the weak and rewards should be allocated according to need. The implications of this for remuneration and incentive policies are obvious. In masculine countries, such as the USA⁸, reward systems based on high-profile bonus schemes and competitive "employee of the month" programs will generally be highly motivating. In feminine countries, such as Sweden, they will generally be disliked and counterproductive.

When we come to the dimension of uncertainty avoidance, we can bring to touch on the more complex applications of the model by considering the interaction of two of the dimensions at the same time. As already mentioned, uncertainty avoidance relates to formalization: the degree to which people feel the need for formal structure in the social or work environment. Equally, we noted that power distance was related to centralization: organizations in low power distance societies will tend to be less centralized than those in high power distance countries. Taken together, these dimensions have implications for the models of organization one can expect to encounter in different countries. Thus in countries exhibiting low uncertainty avoidance and low power distance, such as Great Britain, we can expect to find organizations which are both decentralized and light on formal structure; colleagues negotiate and outcomes will be determined neither by hierarchy nor procedures. In societies showing high uncertainty avoidance and low power distance, such as Austria, we can expect organizations to be decentralized but relatively formalized; the operation of the organization will be determined by rules without the need for hierarchical intervention on a day-to-day basis. Where we find high uncertainty avoidance and high power distance as, for example, in France, organizations will tend to be both highly structured and centralized: everyone will have a clear place in the hierarchy, interacting according to the rules. Finally there will be countries, such as India, which exhibit low uncertainty avoidance and high power distance. Here, authority is centralized but outcomes are not predetermined by formal procedures, analogous to the working of a family".

⁸ Hofstede (1980) calculated the score on each dimension of the model for some countries. The Institute for Training in Intercultural Management (ITIM) has continued Hofstede's work expanding the list of countries studied (See appendix 2).

Other authors have investigated Asian and occidental JVs inspired by Hofstede's model (Baird, Lyles and Wharton, 1990; Swierczek and Hirsh, 1994; Sweeney, 1996). They have contributed with empirical evidence showing the differences that exist between the Asian and the occidental management styles, and therefore helped to improve the management of such ventures. No studies of this kind have been identified involving Latin American countries.

2.3.2.6.2 HRM and JV Control

Geringer and Frayne (1990), investigated the relation between HRM and JV control. They argue that control exercised by PCs over a venture's operations represents a critical determinant of JV performance and the attainment of PC objectives. Yet, particularly in comparison to wholly owned subsidiaries, the exercise of effective control over these jointly owned and managed ventures often presents a more difficult proposition for PCs. Parents are often unable to rely solely on their ownership position and related formal controls to ensure that their objectives are adequately considered, instead requiring recourse to other modes of influence. In this regard, it must be kept in mind that JV performance is not determined merely by contracts, but also by people. Indeed, management of the people dimension is essential in order for a parent to effectively influence JV operations. Nevertheless, although many JV performance problems have been linked to poor design and execution of HRM strategies, companies often fail to adequately plan for and utilize HR in their JVs (Shenkar and Zeira, 1987; Schean and Beamish, 1988; Pucik, 1988). Thus, if PCs are to more effectively influence JV operations and performance, recognition of the use and importance of HRM strategies as alternative control mechanisms appears warranted.

Geringer and Frayne (1990), focused their investigation in four specific dimensions of HRM as JV control mechanisms, namely: 1) recruitment and staffing, 2) training and development, 3) performance appraisals, and 4) compensation and reward strategies.

1) Recruitment and staffing of JV employees, particularly those in the venture's top management positions, may represent a crucial strategic control mechanism for a JV parent. Even if it is only a 50/50 or a minority partner, a parent may be able to effectively influence the management and performance of a JV by influencing staffing of the JV's key positions (Geringer and Frayne, 1990).

Since the JV GM is responsible for maintaining relationships with each of the parents, as well as running the venture, influencing staffing of this position represents an especially important opportunity for affecting a JV's operations (Geringer and Frayne, 1990).

The potential for influencing venture performance through recruitment and staffing is not limited to the JV GM position, however. The nature and extent of organizational learning that occurs within the JV environment may be influenced by the number and quality of HR which are devoted to the venture. Key areas for exercising such influence may therefore occur throughout the value chain of the JV, including the R&D staff; production personnel; engineers; financial, legal and other administrative staff; and salespeople. Selection of individuals for positions within the JV has to be done carefully, since they will have to face challenges such as dual parenting demands, complexity and multiplicity of goals, multiple cultural and language differences as well as geographic differences. Realistic recruitment⁹ may be an effective tool for helping to ensure that the individuals who are selected will work effectively within, and cope with, the demands and pressures of the JV environment. The ability to staff a venture with individuals who will be sufficiently flexible in thought and action is a fundamental prerequisite for successful JV performance (Geringer and Frayne, 1990).

The use of recruiting and staffing as a control mechanism need not be limited to the start-up stage of the venture. As suggested by Oik and Bussard (1989), parent firms may also be able to maintain or alter control over a JV by implementing changes in the senior personnel of an on-going venture. Indeed, firms have often found it necessary to implement personnel changes in a JV as it evolved through the different stages of its life cycle, or if it was failing to satisfy the performance objectives of one or more of the partner firms. However, if rotation or replacement of employees is too frequent or too widespread, management continuity and essential relationships among the partners and the JV may be harmed (Geringer and Frayne, 1990).

JV's personnel must have the technical, organizational and interpersonal skills necessary to successfully operate the venture and

⁹ An approach which includes a realistic job preview as well as personnel techniques such as psychological tests and simulations which assess the fit of the individual to with the demands of the JV operations.

satisfy the stakeholders' objectives. They must have the drive and commitment necessary for making the venture work, as well as the ability to recognize and respond to the unique managerial challenges associated with JVs (Geringer and Frayne, 1990).

2) Training and development includes any attempt to improve current or future employee performance by increasing (through learning) an employee's ability to perform, usually by changing the employee's attitudes or increasing his or her skill level and knowledge. When implemented correctly, employee training and development can be a useful control mechanism because it can remove performance deficiencies, thereby improving the employee's abilities to perform better and allowing the organization to be more effective. Training can also be used to encourage people to think and behave in ways consistent with the parents' and other stakeholders' cultures, objectives and interests. In addition, training can be used as a mechanism for establishing or perpetuating a unique JV culture, one which is appropriate to the venture's specific circumstances (Geringer and Frayne, 1990).

Whether the training is done by a parent, by someone in the JV or by some other entity, the content of the training program is the critical concern and, therefore, a parent may wish to direct its efforts towards influencing this content. Zeira's (1975) research indicated that most training programs for expatriates did not help the target employees with their adaptation problems in subsidiaries. Therefore, by ensuring that appropriate training programs are developed for the venture, a parent can influence JV operations.

Training programs for JVs or key PC employees can influence venture performance in many ways. For example, language and cultural training can improve the extent and quality of communication within the JV as well as between the venture and its parents. Training programs can also increase opportunities for corrective action by identifying and reducing errors in performance, and promote developmental activity through teaching employees new skills for a current job or a different job in the organization (Geringer and Frayne, 1990).

3) Performance appraisals represent another HR strategy that parent firms can employ in their efforts to influence JVs. They serve many specific purposes; namely, management and staff development, performance improvement and compensation. Performance appraisals provide a framework for future employee development by identifying

and preparing individuals for increased responsibilities, for example, assuming multiple roles within the JV. In addition, appraising employee performance encourages continued successful performance and helps to identify and overcome individual weaknesses to make employees more effective and productive. It also allows parent firms to monitor progress towards attainment of critical JV objectives. Finally, performance appraisals help determine appropriate pay for performance and the provision of equitable salary and bonus incentives. By influencing the purpose, method and frequency of performance appraisal that is employed, and thus what expectations are established and reinforced regarding the venture's operations, PCs can influence JV performance. The performance criteria to be used will depend on the JV's specific circumstances. Performance appraisals should not be used strictly in a reward/punishment manner. Instead, they should serve to identify strengths and weaknesses so that training and development programs can be tailored to the employee's needs. It is advisable to periodically review the objectives of the JV and the parent firms, as well as to reassess the political, economic, competitive and business conditions that confront the venture. As changes in objectives of operating conditions arise, it may be necessary to respond to these changes through modifications in the performance appraisal criteria. In making any such changes, it is important that consistency with the objectives of the key stakeholders is maintained, in order to avoid conflicts (Geringer and Frayne, 1990).

4) Compensation and reward strategies. The three major organizational needs that compensation addresses are the attraction of potential employees to the organization, the motivation of employees to perform and the retention of good employees. In designing a JV's compensation and reward system, it is essential that the system be balanced in terms of internal equity and external competitiveness in order to attract and retain qualified and committed personnel (Kanin-Lovers, 1986). For the JV to be successful, the performance appraisal and reward systems should reflect the fundamental strategic objectives of both partners, as well as the needs of the venture itself. Since the required behaviors may vary over the course of a venture's life cycle, it may also be necessary to monitor the compensation and reward system over time and to modify it accordingly (Geringer and Frayne, 1990).

The use of compensation as a JV control mechanism may take several forms. For example, PCs that want to maintain control over the allegiance of a JV's personnel sometimes attempt to do so by keeping the venture's GM or other key employees on the parent's own payroll.

The major problem associated with this approach is that these employees may become merely a subset of the parent firm's operations rather than representing a distinct operating entity, and thus they may be biased towards more avid pursuit of the parent's objectives than those of the other stakeholders. This tends to produce an unstable situation, and conflict and related performance problems are likely to result. In contrast, another strategy for exercising control is to explicitly tie an employee's bonus, and possibly his or her career path within the parent's international operations, to the attainment of the JV's long-term strategic objectives, (Lyles, 1987). This approach encourages the employees to develop an unbiased and undivided allegiance to the JV (Geringer and Frayne, 1990).

We presented in this section a picture of some important aspects involved by the HR function in JVs. We saw what are some prevalent and potential personnel problems in JVs that have been overlooked by the human resources literature, we presented a classification of different employee groups in JVs, we analyzed cultural differences and their impact on HRM and finally we discussed how the RM could be used as a means of JV control. This body of the literature inspired several questions of our empirical research (See appendix 1): What is the proportion of foreign and local managers working in our group of JVs? What are the JV's needs on foreign managers during their life cycle? Are there any positions that must be staffed by foreign and others by local managers? The coming section will introduce a reflection regarding the JVGM theme.

2.3.2.6.3 Joint venture GM

The GM is the person in charge of coordinating the actions necessary to attain the JV's objectives and his life is characterized by a unique tension inherent to the JV organizational form. Beamish and Schaan (1988), noted that double parenting exacerbates the difficulties and challenges that are a normal part of managing internationally, while creating new ones as well. This section shows the specificity of the joint venture's general manager (JVGM) role, some aspects that make it difficult to manage a JV in a LDC, how JVGM's respond to those challenges and finally we expose some ideas regarding the skills that a global manager should possess to succeed in the actual business world.

Culpan (1993) explains that the job of the JVGM has been equated with that of an organization's chief executive. Yet, the JVGM position, by its very nature, is subordinate to the chief executive and represents

more of a middle-management type of position. A middle-level GM is a GM who is responsible for a particular business unit at the intermediate level of the corporate hierarchy. The job of a middle-level GM differs significantly from top-level GM positions, and in many respects is more difficult. The role of the JVGGM typically differs from that of a GM in a wholly owned subsidiary, and a strong argument can be made that the role of the JVGGM tends to be much more difficult than similar intra-corporate positions. Role conflict, ambiguity, and overload are inherent to the practice of management. However, for GMs of JVs, these factors are typically magnified. The problems confronting the JVGGM include the presence of two or more parent organizations, geographic as well as cultural distance, divergent sets of expectations, goals, and desired performance outcomes, multiple and often conflicting objectives of stakeholders, and increased susceptibility to, and greater complexity of, corporate politics. All of these problems have been well documented in several studies (Killing, 1983; Janger, 1980; Beamish and Schaan, 1988; Frayne and Geringer, 1990; Anderson, 1990; Culpán, 1993).

There are some aspects that make it difficult to manage a JV and particularly in a LDC context such as meeting the expectations of two (or more) parents, ensure the economic viability of the venture, and managing in an environment constrained by parent control practices (Beamish and Schaan, 1988).

Regarding the first aspect, meeting parent expectations, JVGGMs tend to be evaluated based on one, or a combination of, dimensions such as their ability to meet each parent's expectations, to achieve the JV's strategic objectives or simply to maintain a good working relationship with managers from parent organizations. A challenge facing JVGGMs is not only that the parent organizations may have different sets of expectations, but more importantly that those expectations are seldom clearly communicated and that they change over time. Beamish and Schaan (1988) found that in 70% of the JVs they studied, the JVGGM was not handed a clear set of criteria by his two parents. Typically, he had to learn over time, through a trial and error process, what he had to do well to content each parent.

Managers in parent organizations use a complex function of expectations in forming a judgment regarding how successful a JV is. They use a combination of quantitative and qualitative criteria, with each criterion carrying a specific weight in the function. Further, both

the criteria and the weights change over time. As a result, JVGMs need to be perceptive enough to read the signals sent by managers from the PCs, and adapt their personal and company's strategies to respond to changes in expectations. Differences in the parents' expectations were found in the following areas.

Area	Expectations
Dimension used	Growth vs. ROI vs. Dividends
Time orientation	Short-term vs. Long-term
Level of achievement	Aggressiveness of the criteria
Degree of specificity:	Undefined growth vs. Growth in sales of 20%

Source: Based on Beamish, P. W. and J. L. Schaan (1988), "Joint venture general managers in LDCs", In F. Contractor and P. Lorange (eds), *Cooperative Strategies in International Business*. Lexington Mass, Lexington Books.

It is difficult for an IJVGM to meet all criteria for one parent simultaneously. Therefore, managing a JV involves a subtle balancing act between the parents' priorities, the JV's strategic and operating priorities and the personal objectives, beliefs and values of the managers representing the various stakeholders in the JV.

With regard to the second aspect, ensuring the economic viability of the JV, it is well known that the JV characteristic of greatest interest to both managers and researchers is performance. Beamish (1987), found that JVs managed by a local GM performed better than JVs with a foreign JVGM. Since JVs are jointly owned, it is reasonable to examine whether both parents were satisfied with performance. Because one partner is a local firm and one is a foreign firm, Beamish and Schaan (1988) expected differences in how performance might be assessed. The authors found that in the country where the JV was located, the MNE partners were never strictly dependent on local earnings in determining their overall return. However, venture profits were often the only source of revenue for local partners, and as Reynolds (1979) notes, the JV was much more often the major industrial interest of the local partner.

The foreign partner, therefore, might still be earning a good overall return from the business (through raw material sales, royalties, etc.) when the venture itself was generating little, if any, profit.

Finally, regarding the third aspect, managing in an environment constrained by PC control practices, Beamish and Schaan (1988), found that JVGMs generally have less autonomy than they want to think they have. In particular, JV's board of directors have been found to play a major role in the decision-making process, greater than in the JVs operating in DCs. They argue that in LDCs, in addition to the level of uncertainty and the foreign parent's desire to be in control, there is a lack of managerial depth and the board of directors constitutes a mechanism for transferring the parent's expertise.

Control refers to the process through which a PC assures that the way a JV is managed conform to its own interests. PCs have been found to exercise control through both positive and negative mechanisms. A parent uses positive control when it is in a position to influence activities or decisions in a way consistent with its own expectations and interests (ex: ability to design planning process, to set objectives for JVGM, to decide in future promotion of the JVGM etc.). It uses negative control when it is in a position to prevent decisions or activities it does not agree with from being implemented (ex: Board, executive committee, approval required for specific decision, plans, budgets, nomination of JVGM etc.). Negative mechanisms such as veto right over major decisions are particularly useful to parents in a minority shareholder position (Shaan, 1983).

The autonomy of a JVGM is determined by how the following issues are implemented in a given case. **What JVGMs can / cannot do:** In Beamish's and Schaan's (1988) sample, there were decisions and / or activities that were unequivocally the responsibility of one parent, of both parents or of the JVGM. Of course, for many decisions the lines were not clearly defined. However, for those decisions or activities that could be identified as being the prerogative of a given party to the JV, the allocation of authority was done in one of the two ways.

First, the allocation was the result of negotiations during the planning phase of the JV and formally ratified in the JV agreement. This was the case for all the JVs studied by the authors. Differences existed regarding which decisions should be made by whom, depending on the area of expertise brought by a parent; or on the control policies of the parent.

Second, the allocation could be the result of an implicit understanding and agreement of the parents regarding their respective territories of influence. This happened in cases where one parent would

demonstrate greater expertise in a specific area than its partner or the JVGM.

What JVGMs need to get approval for: As in most companies, JVGMs had to get approval for their strategic and operating plans, their budgets, appointments of JV top managers, capital budgeting decisions, etc.

Who sets policies and procedures and general management practices: Beamish and Schaan (1988) found that in most of the Mexican JVs, the JVs' policies and procedures were a replication of one parent's. Since in each of those cases the JVGM had been appointed by the parent who had established the policies and procedures, he had a clear understanding of the JV's operating rules.

What role managers in PCs play: Two crucial elements in determining the JVGM's autonomy are the personal style of managers from the PCs and the amount of trust between people. In some JVs, the JVGM received calls on a periodic basis from managers in a PC who wanted to make sure there were no surprises, while in other JVs the JVGM would be left alone (unless he asked for help) until the next board meeting.

JVGMs respond to those challenges in many ways. As JVGMs learn how to live and manage under double parenting, they tend to develop an agenda of their own which differs in an important way from that of their parents (Beamish and Schaan, 1988). While managers from PCs tend to decide on the JV's success based on how well the JV meets their own expectations, the JVGM's judgment is based on the avoidance of bad relationships between the parties involved. In other words, managers in the PCs tend to use indicators centered on the idea of achieving specific results, while JVGMs tend to use indicators centered on the idea of preventing bad relationships from developing.

JVGMs tend to see their allegiance to the JV first and to the parents second. This applies to the vast majority of JVGMs interviewed by Beamish and Schaan (1988), whether they come from one parent or not. When trying to resolve differences between the parents, they find that the JV's interests should be placed first and the parent's second. Essentially JVGMs want to stay away from situations where one parent is perceived to win and the other to lose over a specific issue. If the JVGM tries to satisfy one parent more than the other, or if he is perceived to do so, sooner or later he is going to erode his credibility

and jeopardize his working relationship with the partner who feels discriminated against.

A JVGM can be viewed as a diplomat facilitating commitment, trust and communication. Beamish and Schaan (1988) argue that there are four levels of commitment: 1) commitment to international business; 2) commitment to JV success; 3) Commitment to the particular JV, and 4) commitment to the particular venture partner. The JVGM must also facilitate trust and open communication in the JV and between the parents. In turn, trust and communication will increase the parent's commitment towards the JV. Managers in successful PCs have been found to spend time and money to maintain and develop a trust relationship with the JVGM with the JVGM or with their partners in order to increase the accuracy of information obtained through informal channels and discussions with managers from the JV or the local partner. Formal reports are not sufficient to determine what is really going on in the JV.

The JVGM is in a unique position to develop an understanding of the parents' idiosyncrasies with respect to verbal, non-verbal and written communication. He often has to serve as an interpreter by explaining the meaning of what is communicated, clarifying misunderstandings and teaching managers in the parents organizations about their partner's codes and languages. Trust between the partners is a critical ingredient to the successful resolution of conflicts (this topic was introduced in section 2.3.2.5.1). This has been found to be particularly true for JVs in LDCs, where the quality of interpersonal relationships is a better predictor of successful conflict resolution than legal and contractual considerations. As a result, the JVGM needs to help the parents build a relationship where trust is an important component. Also, he must avoid situations which may jeopardize trust, because once lost it is extremely hard to rebuild. This also applies to his own relationship with the parents (Beamish and Schaan, 1988).

The trust-communication-commitment characteristics are truly integrated. By developing and maintaining an open communication system with the JV and with the partner, the parent is able to 1) understand the JV's problems better and offer better solutions; 2) become aware of changes occurring in the JV business or in its partner's expectations; 3) keep in touch with its partner, hence showing commitment to the JV and contributing to a trust relationship. The JVGM is often the center of all the interaction between the two partners. By understanding the importance of open communication to a trusting relationship and how it achieves a higher level of

commitment from the partners, the JVGM as diplomat can strive to open barriers that may be blocking this profitable cycle (Beamish and Schaan, 1988).

In order to cope with the political and interpersonal constraints of their job, JVGMs must show great sensitivity to the PCs' differences in culture, management style and expectations. Being under the scrutiny of two or more parents, they have to reconcile the achievement of their personal and career objectives with the parent's objectives and with the unique strategic and operating imperatives of running a company in a LDC.

Having presented the specificity of the JVGM's role, some aspects that make it difficult to manage a JV in a LDC and how JVGMs respond to those challenges, we devote the following pages to the skills that a manager should possess to succeed in the actual business world.

According to Culpán (1993), the skills that an JVGM should have include effective leadership skills; networking and interpersonal skills; a vision where the venture is going; an ability to manage both PC needs as well as those of the venture; and a high degree of perceived self-efficacy and task accomplishment. In addition, the JVGM must be able to set realistic goals, monitor performance of the venture, and respond to changes in the market or preferences by the board of directors through goal readjustment and evaluation. Beamish, Morrison, and Rosenzweig (1997) described a mix of skills that a global manager should possess to succeed in the actual business world; this list completes Culpán's. According to the authors, if one looks at the requirements for success in the global economy, it seems pretty clear that a global manager is going to have to have a repertoire comprising a comprehensive knowledge base and a well developed set of relational and cross-cultural skills. It will include knowledge about business and technical matters, social, political and economic systems, and culture; and ability to define and solve problems in the face of uncertainty; implementation skills; and a keen sense of how and when previous experience is relevant in new cultural settings.

Many of the requirements of a global manager were articulated at a symposium organized by the Board of Governors of the American Society for Training and Development (Table 10).

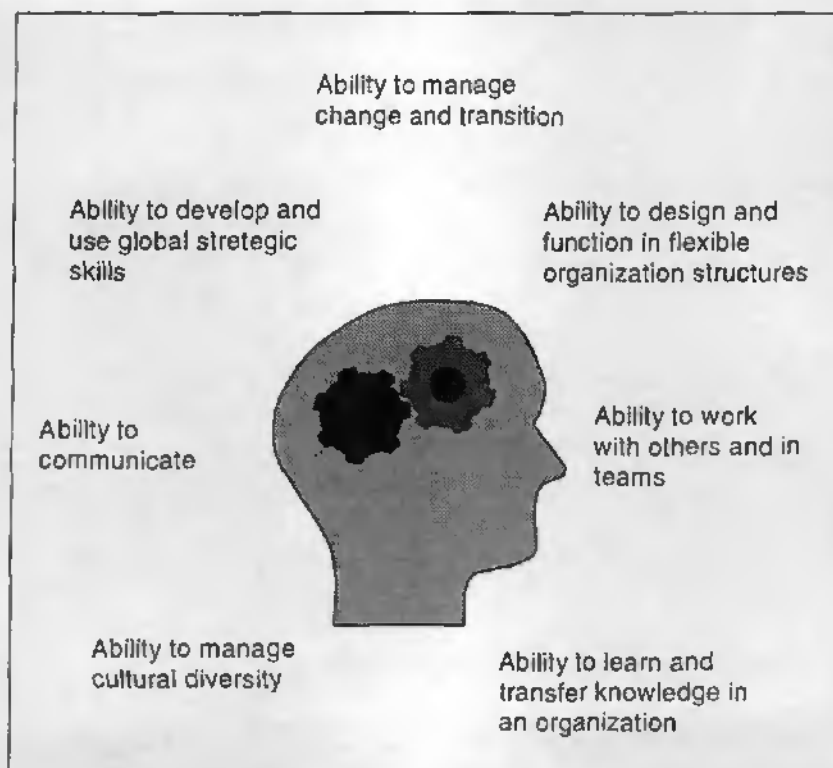
Table 10: Executive traits now and in the future.

Now	In the future
All knowing	Leader as learner
Domestic vision	Global vision
Predicts the future from the past	Intuits the future
Caring for individuals	Caring for institutions and individuals
Owens the vision	Facilitates vision to others
Uses power	Uses power and facilitation
Dictates goals and methods	Specifies processes
Alone at the top	Part of an executive team
Values order	Accepts paradox of order and amidst chaos
Monolingual	Multicultural
Inspires the trust of boards, shareholders	Inspires the trust of owners, customers, and employees

Source: Based on Beamish, P. W., A. Morrison and P. Rosenzweig (1997). *International Management: Text and Cases*. Boston, Irwin, pp. 183.

This list encompasses many of the particular skills required by global managers (McMillan, DiStafano, Rush, 1991). Reviewing a wide range of literature dealing with global strategy, global marketing, global operations management, and global HRM, the authors identified a profile of effective global executives (figure 8). The development of these skills is a lifelong process and it is unlikely that a single executive will master all of them.

Ability to develop and use global strategic skills: Players in the new global environment will have a fast response capability, will be comfortable with cross-cultural influences, and will be entrepreneurial and flexible. Global managers will require a working knowledge of international relationships and foreign affairs, including global financial markets and exchange rate movements (Rhinesmith, Williamson, Ehlen and Maxwell, 1989).

Figure 8: Profile of effective global executives

Source: Adapted from Beamish, P. W., A. Morrison and P. Rosenzweig (1997). *International Management: Text and Cases*. Boston, Irwin, pp. 183.

These expanded business management skill will need to be coupled with global responsibilities to take advantage of manufacturing rationalization, "mass customization" of products, and low-cost, global sourcing (Kotabe, 1992).

The global mind-set required by these new economic and competitive realities will be needed at all levels in the firm. Managers with this global perspective will need to strike a balance between national responsiveness and exploitation of global economies of scale. This is the vaunted ability to "think globally, but act locally". Although the trend is towards standardization with some products and services, for others, managers must be sensitive to both local idiosyncrasies and global imperatives in reaching strategic decisions (Beamish, Morrison, and Rosenzweig 1997).

Ability to manage change and transition: Managing change in an unstable environment will be an unending challenge. Constantly fine-tuning the balance between global and local pressures under changing competitive conditions will contribute to the need for frequent reorganization of resources, human networks, technology, and marketing and distribution systems. The shortening of product life cycles¹⁰, driven by technological change in the products and how they are manufactured and delivered, contributes to the acceleration of change. Managing change within an alliance requires particular attention to the needs of the different partners, and an ability to enter into unique trusting relationships (Beamish, Morrison, and Rosenzweig 1997).

Ability to manage cultural diversity: An understanding of culture and its impact on behavior, particularly management behavior and practices, becomes essential. Very often, people experience difficulties when they have to work in another culture because people's world views and mental programs are different as we saw in section 2.3.2.2.

Ability to design and to function in flexible organizations: Borderless organizations have already been created where the ability to learn, to be responsive, and to be efficient occurs within the firm's administrative heritage (Bartlett and Ghoshal 1989). This suggests that a wide range of people in such firms must demonstrate the capacity for strategic thinking and action, assisted by an open communication of plans. Decentralization of strategic tasks, early opportunities for development of top management capabilities, and control systems measuring performance across many dimensions. These new organizations will have multiple centers of influence and managers will move between jobs at these centers. This lateral movement between centers and jobs will be common and will displace hierarchy and promotion "up the ladder" (Beamish, Morrison, and Rosenzweig 1997).

To operate effectively in these radically different, global organizations will take new skills and old skills honed to a new sharpness. Some of the abilities and characteristics needed by the global manager to function in flexible organizations will be: high tolerance of ambiguity; new levels of creativity and inventiveness in organizational design; the ability to learn, be responsive, and be efficient, all simultaneously; the

¹⁰ Refer to (Cox, 1967; Polli and Cook, 1969) for a detailed explanation of the product life cycle concept, and to (Wells, 1968; Vernon, 1979) for the concept of international life cycle. -

ability to identify and implement diverse managerial behaviors and ideas for ongoing renewal of the organization; the ability to coordinate complicated financial, HR, marketing and manufacturing interdependencies, not only across functions, but also within each business activity; and the ability to recognize different manufacturing, marketing, and organizational problems and priorities across different locations and to accommodate these with new structures and processes (Beamish, Morrison, and Rosenzweig 1997).

Ability to work with others and in teams: With the increased complexity of global operations, the ability to function in work teams, especially in culturally diverse groups, is even more important than it used to be. A Conference Board Report on the experiences of 30 major MNEs in building teams to further their global interests showed that teams used solely for communication or to provide advice and counsel still exist, but more and more firms are also using teams in different and more participative and powerful ways:

Global teamwork can do more than provide improved market and technological intelligence. It can yield more flexible business planning, stronger commitment to achieving worldwide goals, and closer collaboration in carrying out strategic change;

Teams that span internal organization boundaries or the company's outside boundary (JV partners, suppliers, customers) are often required.

The ability to work effectively with other people and in teams will be critical to the successful implementation of a global strategy. Participation in global teams, therefore, should occur early in the careers of managers in order to transform these developing people into globally effective managers (Beamish, Morrison, and Rosenzweig 1997).

Ability to communicate: It is obvious that in global environments managers will need to be able to communicate with diverse groups of people. To do so will require multilingual skills and high levels of cross-cultural awareness and sensitivity (Beamish, Morrison, and Rosenzweig 1997).

Ability to learn and transfer knowledge in an organization: Given the diversity of market requirements and needs, the dispersion of manufacturing and sourcing, the rise of R&D leadership in Europe and Japan, and the importance of technological advances for products and processes innovation, learning and transfer of knowledge are key to

global success. Globally competent managers will be deeply curious; organizations that are successful will be able to coordinate, transfer, and use the knowledge gained by curious executives rapidly and effectively (Beamish, Morrison, and Rosenzweig 1997).

This section enabled us to reflect about some significant aspects concerning the work of the JVGM. We saw which is the specificity of the role that he plays in the management of the JV, which are some of the difficulties that he must overcome in its function and finally, which are the skills that he should have to succeed in his task. Our empirical study is going to analyze the role that the JVGM plays in the group of JVs that we investigate during the empirical work particularly what is the PC origin of the JVGM? Which are the characteristics that he should have to succeed in the management of an European-Argentine JV? What is the degree of autonomy that he has in the JV? Which are the greatest difficulties that he must face? (Refer to appendix 1).

We are going to terminate the literature review discussing environmental and performance evaluation issues.

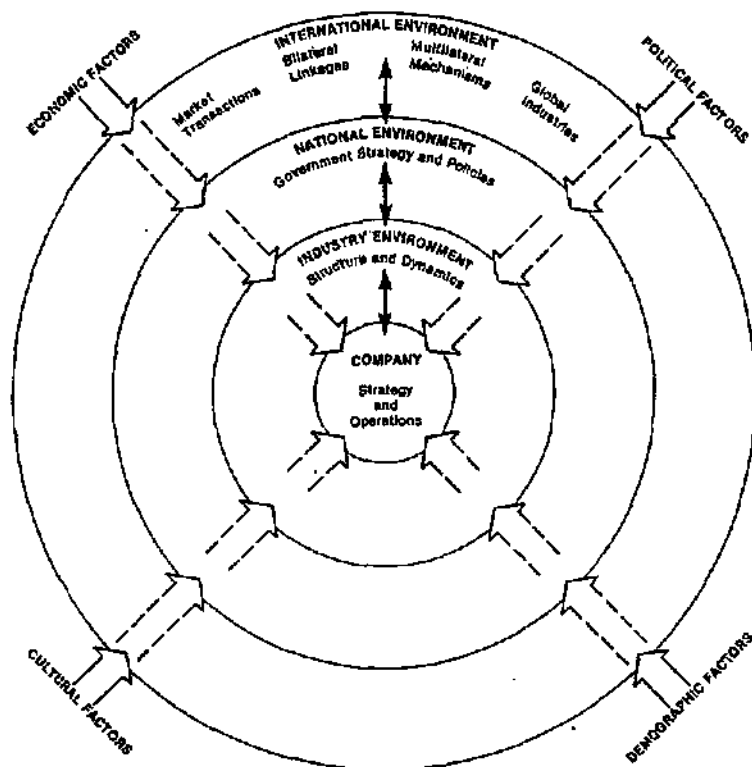
2.3.3 Environment

The majority of variables affecting JV's functioning that we have analyzed until now belong to the category of internal variables. The JV's life cycle is not only affected by internal variables but also by external variables as Harrigan's (1984) dynamic model of JV activity suggests. The external environment influences both the initial configuration and the stability of a JV. In Harrigan's model, the external environment is considered to include such things as industry structure, competitive behavior, technology, and government policies. LDCs are considered a more complex and difficult environment in which to manage JVs than DCs (Beamish, 1985; Austin, 1990; Blodgett, 1992; Shaker, 1994; Fey, 1995). According to Beamish (1985), JVs in developing countries are characterized by a higher instability rate and greater managerial dissatisfaction. This section presents an environmental analysis framework introducing the main aspects affecting a company in a developing country, and then it shows, through various examples, the problems that foreign managers have to confront in LDCs.

The key to effective management in developing countries is the capacity to analyze, understand, and manage the external forces enveloping the firm. The manager confronts two basic questions: What

to analyze in the environment and how to assess its relevance to the firm's strategy. The LDCs' distinctive environment engulfs the firm with a complex multitude of pressures, demands and opportunities. The risk of being overwhelmed is real. A manager must analyze systematically these environmental forces, decipher their managerial implications, and translate them into strategic decisions (Austin 1990). The Author provides an environmental analysis framework (See figure 9).

Figure 9: Environmental analysis framework



Source: Based on Austin, J (1990). *Managing in Developing Countries: Strategic Analysis and Operating Techniques*. New York, Free Press.

According to Austin (1990), the fundamental task in environment analysis is to identify and understand the channels through which external forces impact the firm. One should take a broad view of the forces shaping the environment, systematically recognizing the connections and interdependencies. The framework sorts external factors into four categories: economic, political, cultural, and demographic. Then it envisions the business environment as having four levels: the international level encompassing various kinds of interaction among countries, the national level as shaped by a government's strategy and policies, the industry level involving firms' immediate competitive environment, and the company level comprising the individual enterprise's strategy and operations. These environmental levels are envisioned as moving from the most macro or distant to the firm to the most micro at the internal level of the firm. Each of the four levels—international, national, industry, and company—is shaped by the overall by the overall environmental factors: economic, political, cultural, and demographic. Actions at each level can affect the other three levels, as they are interactive.

Austin (1990) describes the fundamental differences between LDCs and DCs business environments through a few examples that carry significant managerial implications. He explains that when *Cummins Engine Company set up one of its first overseas operations to manufacture diesel engines in India, it encountered a host of new problems: government controls, production difficulties, financial restrictions, and market disruptions. The government required that Cummins incorporate as a JV with a local partner. Manufacturing problems arose because of difficulties in transferring technology, difficulties in training employees in new techniques, and the local partner's different perceptions of and attitudes towards quality. Further complicating production was the inadequacy of the industrial infrastructure: local parts suppliers were technically unable to meet Cummins's quality standards, yet the government required Cummins to use local inputs anyway. The required types of steel were not locally available and had to be imported. Import financing was restricted by the scarcity of foreign exchange in the country and cumbersome bureaucratic procedures to obtain import licenses from the government. This caused long delays that further disrupted production schedules. Initial sales projections were based on the expected demand for diesel engines that would result from the government's emphasis on heavy industry in its national development strategy. But demand collapsed when the government shifted priorities and resources away from industry and towards agricultural production. The*

government also tightened credit to counter rising inflationary pressures, which reduced the financial resources needed by the buyers of engines (several of which were state-owned enterprises). Finally, Cummins was faced with intensified competition from lower-priced Japanese imports after receiving assurances from the government that such imports would be prohibited. For Cummins, the Indian start-up clearly was not going to be a case of doing business as usual. This was a very different environment" (Austin, 1990).

The macroeconomic environment also poses special problems. In Mexico, a local family-owned company had operated a very successful electrical appliance distribution business for many years. Nevertheless, in the 1980s, its success and even its survival were threatened when double-digit inflation broke out. Its traditional policies for pricing, consumer credit, supplier payables, and bank financing began causing losses and decapitalization. The changing macroeconomic environment in Mexico also battered foreign companies, such as the successful Pepsico subsidiary, Sabritas. The government unexpectedly devalued the peso, which, in dollar terms, wiped out the company's peso profits. Furthermore, the acute balance-of-payments problem led the government to require Sabritas and other firms to begin exporting as a condition for continuing to import their production equipment and inputs (Austin, 1990).

Shaker (1994) adds other examples of firms that experienced difficulties in LDCs. According to the author the risk of JV failure, despite the best planning, is high because of unexpected political, legal and economic conditions. AMC and Volkswagen in the People's Republic of China have experienced many unexpected difficulties, including sudden changes in foreign exchange policies by the government, delays in delivering supplies, and lack of parts and equipment. Similarly, American and European JVs in the former USSR faced significant bureaucratic delays in securing approval from the former communist government.

In many developing countries the macroeconomic situation and business environment are significantly affected by loans and economic aid provided by DC governments and such multilateral agencies as the International Monetary Fund (IMF) and the World Bank. Egypt, for example, received in 1989 about 2.8 billion USD in aid from the United States, an amount equal to Egypt's budget deficit. Such aid often comes with requirements for policy changes, e.g. fiscal austerity or devaluation. Such actions can dramatically affect the operations of firms as well as disrupt political conditions. IMF agreements that led to

reductions in government subsidies and food price increases triggered bread riots in Egypt in 1977. Many Egyptian officials feared a repeat, if cuts were too severe in 1989 and 1990. Thus, dependence on external aid complicates the political economy of LDCs. At the same time, the additional capital resources often create business opportunities related to the development projects they fund (Austin, 1990).

A tumultuous political environment often confronts companies. The management of Standard Fruit, the Castle & Cooke subsidiary in Nicaragua, found itself in 1978 in the middle of an armed insurrection, with pressures coming from both the existing government and the revolutionaries. Standard later had to develop strategies for dealing both with the new revolutionary government, which had different conceptions of private property and the societal role of business, and with workers, whose expectations about sharing the control and benefits of companies were dramatically changed by the revolution (Austin, 1990).

Socioeconomic conditions in the Third World can create distinct marketing environments. Nestlé and other manufacturers of infant formula came under intense attack for their use in developing countries of their DC marketing practices that stimulated the consumption of infant formula. Unsanitary living conditions, lack of potable water, and low levels of education and incomes of poor consumers of the infant formula greatly increased the chance of product misuse and possible injury. Pervasive poverty required of managers a heightened social sensitivity and responsibility (Austin, 1990).

Cultural diversity in the Third World also dictates the need for distinct strategies. In some Islamic countries, for example, charging interest is prohibited by religious norms, so different approaches to financial transactions are called for. In some countries sharp differences in social class and language among groups and areas within a single country demand drastic adjustments in, for example, marketing messages and personnel management (Austin, 1990).

Distinctive business environments derive directly from differences in development levels and processes between the LDCs and the more developed nations. Those differences significantly affect all functional areas of management as well as overall strategies (Austin, 1990).

Many of the firms mentioned so far were able to deal effectively with the problems they encountered and to reap corresponding financial rewards; others were not and suffered the economic consequences. A distinguishing feature of more successful companies in developing countries is their superior ability to understand and interact with their business environment. A key to formulating effective business strategies in LDCs is the capacity to analyze and comprehend thoroughly the firm's external environment. Management's challenge is to devise a systematic approach to environmental analysis that enables effective managerial response (Austin, 1990).

The main question regarding the environment theme that we examine in our empirical investigation concerns the major difficulties that managers encountered in Argentina and their implications in JV management.

2.3.4 Performance

The question of JV performance has been the object of extensive research. This section begins clarifying the performance concept and then presenting the particularities of JV performance measurement. Next, a brief presentation of the limitations of traditional financial and objective measures follows completed by an alternative measurement approach, the "package" approach, in which financial and non-financial criteria are taken into account to assess a JV performance. Finally, we introduce another model based on subjective or perceptual performance measurement commonly used in the literature and present previous research findings regarding JV performance in developed and developing countries.

Performance is a recurrent theme in most branches of management, including strategic management, and it is often of interest to both academic scholars and managers (Venkatraman and Ramanujam, 1986). While prescriptions for improving and managing organizational performance are widely available, the academic community has been preoccupied with discussions and debates about issues of terminology, levels of analysis (i. e., individual, work unit, or organization as a whole), and conceptual bases for assessment of performance.

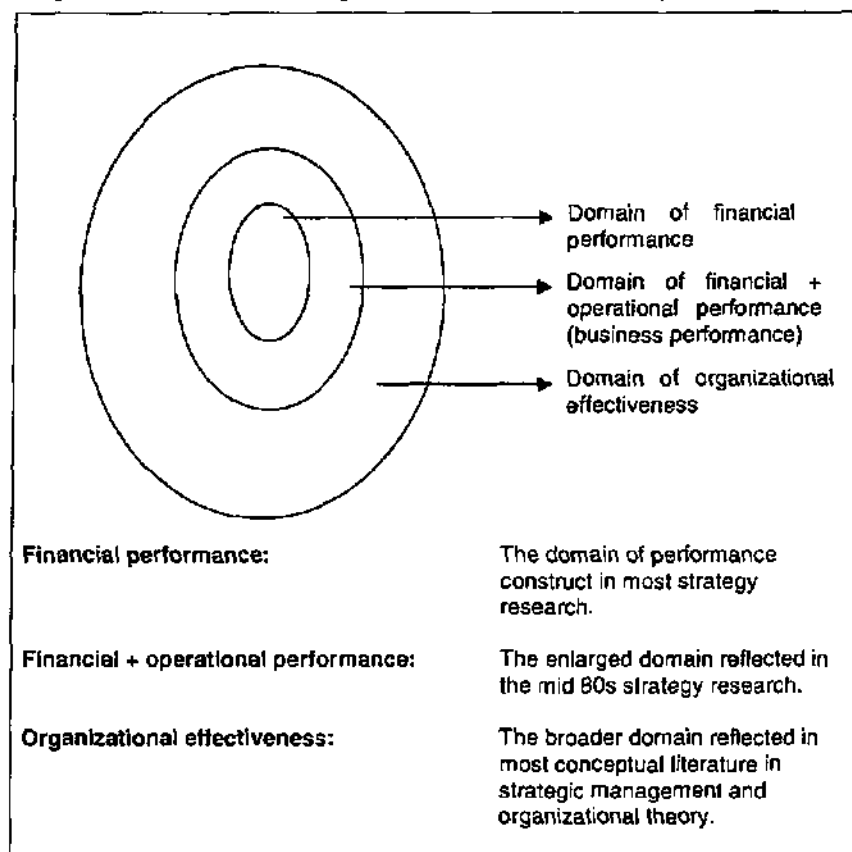
Although the importance of the performance concept (and the broader area, organizational effectiveness) is widely recognized, the treatment of performance in research settings has been perhaps one of the thorniest issues confronting the academic researcher. Previous research evidences a lack of agreement on basic terminology and definitions. It also evidences significant differences in the operationalization of the concept (Venkatraman and Ramanujam, 1986).

A first step to improve the understanding of business performance is to delineate the domain of the performance concept. Venkatraman and Ramanujam (1986) circumscribed the domain. According to the authors, business performance, which reflects the perspective of strategic management, is a subset of the overall concept of organizational effectiveness. Figure 10 provides a schematic for circumscribing the domain of business performance in terms of the scope of coverage in the concept's domain.

The narrowest conception of business performance centers on the use of simple outcome based financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm. The authors refer to this concept as financial performance, which has been the dominant model in empirical strategy research. Typical of these approaches would be to examine such indicators as sales growth, profitability (reflected by ratios such as return on investment, return on sale, and return on equity), earnings per share, and so forth (Venkatraman and Ramanujam, 1986).

A broader conceptualization of business performance would include emphasis on indicators of operational performance (i.e., non-financial) in addition to indicators of financial performance. Under this framework, it would be logical to treat such measures as market-share, new product introduction, product quality, marketing effectiveness, manufacturing value-added, and other measures of technological efficiency within the domain of business performance. Similarly, market share position, widely believed to be a determinant of profitability would be a meaningful indicator of performance within this perspective. The inclusion of operational performance indicators takes us beyond the "black box" approach that seems to characterize the exclusive use of financial indicators and focuses on those key operational success factors that might lead to financial performance (Venkatraman and Ramanujam, 1986).

Figure 10: Circumscribing the domain of business performance



Source: Based on Venkatraman, N. and V. Ramanujam (1986). "Measurement of business performance in strategy research: a comparison of approaches", *Academy of Management Review*, 1(4), pp. 803.

According to the authors, if the multiple and conflicting nature of organizational goals and the influence of multiple stakeholders are superimposed, one can move towards reflecting the writings on organizational effectiveness. Perhaps due to the breadth of this discourse, this literature is plagued with debates on appropriate models of measurement. Although a broader conceptualization is welcomed, it appears that most strategy studies have restricted their focus to the first two circles in figure 10.

The performance problematic becomes even more complex when it refers to JVs because they are subject to a number of constraints that are not encountered to such a degree in most other organizational forms. The outstanding feature concerns the need to take into account the objectives of the PCs that set up the JV and the fact that most JVs are located in a triangle of relationships in which there can be conflicting signals as to what would constitute good performance (Gill and Butler, 1996). Therefore, answering to the question: how to evaluate JV performance? Is it a difficult task, despite that, at first glance, it should seem clear? Some researchers argue that they should be evaluated just like the division of the parent. But which parent? And what if a JV "does well", but at the expense of a parent's interest? To further complicate the picture, JVs are especially likely to be used in risky, uncertain settings. In such an environment, any business is difficult to evaluate because profits, if any, are in the future and costs are in the present (Venkatraman and Ramanujam, 1986).

Geringer (1991) suggests that the exclusive use of financial criteria to evaluate the performance of a JV is not an adequate approach. Early studies used a variety of financial indicators typically employed in business research, such as profitability, growth and cost position (Tomlinson, 1970; Good, 1972; Renforth, 1974; Dang, 1977; Lecraw 1983).

Others have used objective measures of performance such as the survival¹¹ of the JV (Franko, 1971; Stopford and Wells, 1972; Raveed, 1976; Killing, 1983; Geringer, 1990), its duration¹² (Harrigan, 1986; Kogut, 1988), instability of (significant changes in) its ownership (Franko, 1971; Gomes-Caseres, 1987), and renegotiations of the JV contract (Blodgett, 1987b). Yet, these financial and objective measures embody potential limitations that are critical to evaluation of JV performance. Indeed, as is the case for private firms, and for conglomerates, these data often are not reported, are unavailable, or are only included in consolidated corporate data (Dass and Robinson, 1984).

¹¹ Survival is indicated by coding whether the venture is still operating or not.

¹² Duration is measured by the number of years between when a venture was formed and terminated.

In addition, IJVs' parents commonly generate financial returns through mechanisms other than dividends, including supply contracts, management fees, technology licensing fees, royalties and transfer pricing. If available, these figures are seldom incorporated into calculations of IJV financial performance.

Evaluating businesses developed in risky, uncertain settings is a difficult task (Anderson, 1990). The standard way to allow for this when evaluating performance is to use discounted cash flow analysis (DCF). But DCF is seriously flawed in risky, uncertain settings (Goodman and Pennings, 1980; Lewin and Minton, 1986). According to Anderson (1990) there are four major problems:

First, while subjective estimates of operating results (such as revenue) may be feasible, converting these estimates into cash flows is extremely difficult, especially for later years in the projection;

Second, period-by-period long-run forecasts are so difficult that they often end up being mechanical extrapolations of short-term trends. These estimates have the specificity needed for DCF analysis, but they overlook strategic concerns, such as technological changes. Besides, emerging markets economies fluctuate so much that it is extremely difficult to make good forecasts;

Third, uncertainties are very difficult to incorporate. A standard response is to raise the discount rate, but this penalizes uncertain projects exponentially into the future, thereby biasing against significant risk taking;

Fourth, and most important, many JVs are really options. They allow a parent to maintain a doorway into a market or a technology. If the opportunity eventually looks promising, the parent can exercise its option to enter. Otherwise, the firm can walk away. Unfortunately, DCF analysis does not adequately account for the value of an option – nor, for the matter, does any other analytical technique.

To conclude, financial and objective measures also may fail to adequately reflect the extent a JV has achieved its short and long-term objectives (Killing, 1983; Artisen and, Buckley 1985; Blodgett, 1987b). As we mentioned when we presented local and foreign partners' motivations to form JVs, many JVs are not intended to fill standard business objectives (such as making profits). Instead, they are created, among others, to learn a technology, open a market, "keep a window" on an opportunity, block a competitor, etc.

It is not easy to assess how well a venture meets qualitative objectives such as these. In this context, many if not most, JVs operate in settings where current financial results are bound to suggest poor performance. Yet, the venture may be making satisfactory progress towards longer-term goals, or meeting current goals that are not financial in nature. Standard operating procedure, then, will misstate the venture's performance. Therefore, a method incorporating other operational criteria for performance measurement seems appropriate.

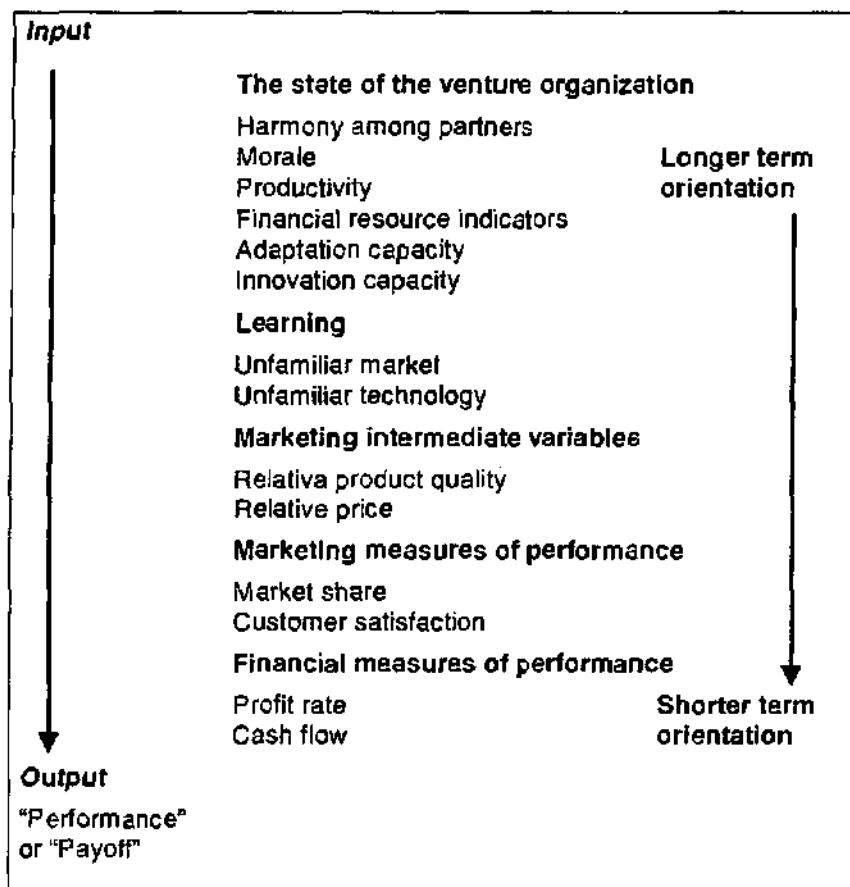
Anderson (1990) argues that businesspeople evaluate performance using a combination of variables such as growth, profit, return on stockholders equity, consistent avoidance of losses, consistently positive earnings, occasional improvements in operating results, good bond ratings, and stable management. Within the same order of ideas, Cameron (1986), argues that effective companies avoid extreme levels of any one criterion of effectiveness. Instead, they seek to do well on a variety of criteria and to satisfy multiple stakeholders.

It is interesting that while most of the factors mentioned by businesspeople are financial, and clearly result oriented, others such as stable management are non financial and related to long-term performance. Executives seem to rank organizational performance by considering a "package" of inputs and outputs, weighted over time. A number of writers argue that the "package" approach is a correct way to evaluate a business, even though it is cumbersome, difficult, and subjective. Empirical support was provided by a study that found that traditional accounting figures, including profitability measures, were statistically not enough to distinguish excellent from ordinary firms (Chakravarthy, 1986). Excellent firms are also distinguished by their operating characteristics and methods, suggesting the need to view performance as a combination of many factors.

Theory and practice seem to converge on a "package" approach in which inputs and outputs (figure 11) are weighted to arrive at a composite index of effectiveness, which is then used to allocate resources. However, considering diverse indicators and then comparing an organization's "score" to some baseline means that evaluation must be done with a strong element of subjectivity. This in turn creates substantial differences of opinion about performance.

In developing performance criteria it may be useful to classify performance measures along a continuum ranging from input to output measures. At the output extreme are the "results" measures that most people use to assess current performance. At the input extreme are indicators of states. The input extreme represents variables that should determine (create) measurable results. Inputs represent what the organization is doing and how it is struggling to achieve eventual results (outputs). It is important to note that inputs are not themselves measures of the results most commercial organizations set as goals.

Figure 11: JV performance measures



Source: Based on Anderson, E (1990). "Two firms, one frontier: On assessing joint venture performance", *Sloan Management Review*, 31(2), pp.22.

Yet, inputs are included in most discussions of performance because they are thought to be indicators of the organization's health and viability. They are considered to assess long-term effectiveness. As the figure shows, the input-output continuum also corresponds to a longer-shorter term orientation (Anderson, 1990).

Cultural differences play also an important role in the choice of JV performance evaluation indicators. Kanter (1994) pointed out that managers from the U.S. tend to have a short-term orientation while evaluating the venture's performance and thus privilege the use of short-term financial indicators. While European and mostly Asian managers have a long-term view of performance, she argues that sometimes, particularly in Asia, partners are selected more for their potential to open future doors than for immediate benefits. Promising relationships should be nurtured for their future value, even when initial JVs are not very profitable. Many relationships die an early death when they are scrutinized for quick returns.

In their sample concerning 70 JVs between DCs and LDCs in six developing countries: Argentina, Brazil, India, Mexico, the Philippines, and Turkey, Miller, Glen, Jaspersen, and Karmokolias (1999) found that the most frequently mentioned performance measures were non-financial measures such as product improvement, quality improvement, and sales growth. Only one financial measure fell into this group, net return on equity. Somewhat further down the list in importance were other financial measures such as return on sales, and net return on assets.

Because of the limitations of financial and objective measures and the difficulty to elaborate a performance index suited to evaluate all JVs, Killing (1983), Shaan (1983), and Beamish (1984) used a single-item perceptual measure of a parent's satisfaction with a JV's performance (e.g., to what extent has the JV met the expectations of your firm?). The main advantage of this type of measure is its ability to provide information regarding the extent to which the JV has achieved its overall objectives. In addition, these three authors, as well as Janger (1980), utilized subjective performance measures for each of a limited number of individual dimensions of the JV. These types of measures remain subjective and are thus exposed to serious limitations and biases. To overcome methodological limitations associated with the subjective or perceptual measure of JV performance, Schaan (1983), and Beamish (1984), proposed collection of data from each parent regarding its level of satisfaction with the JV.

Data collection from more than one respondent enhances the measure's reliability. We adopted this approach to measure JV performance in our investigation.

Previous studies noticed high unsatisfactory performance rates, and particularly in JVs operating in LDCs. In Beamish's (1984) sample, MNEs' managers assessed 61% of their JVs as unsatisfactory performers. In itself this statistic is useful because it provides some perspective on just how pervasive performance problems are with JVs in LDCs. This is contrasted with the much lower 36% level found in DCs. The following table summarizes the results of different studies.

Table 11: Joint venture performance in developed and developing countries.

Samples Size	Development level of the country	Unstable * (%)	Unsatisfactory performance (%)
1100	DCs-Franko (1971)	30	**
36	DCs -Killing (1983)	30***	36
168	Mixed (DCs and LDCs) - Janger (1980)	**	37
60	Mixed (DCs and LDCs) - Stuckey (1983)	42***	**
66	LDCs -Beamish (1984)	45***	61
52	LDCs -Reynolds (1979)	50	**

* Franko defined a joint venture as unstable when the holdings of the MNE crossed 50% or 95% ownership lines, the interests of the MNE were sold, or the venture was liquidated.

** No data provided.

*** Includes major reorganizations.

Beamish, P. W. (1985). "The characteristics of joint ventures in developed and developing countries", *Columbia Journal of World Business*, fall, pp. 14.

Other disciplines, such as finance, have also undertaken research on JV performance. The entity that evaluates the performance or the wealth effects of JVs under this perspective is the market. The extant literature in the area has already provided some evidence regarding the impact of JVs, but the overall results are inconclusive (previous studies found positive, negative and insignificant reactions to JV announcements).

Borde, Whyte, Wiant, and Hoffman (1998), using a sample of 100 IJVs (including an American partner) announced between 1979 and 1994, found that, on average, IJVs have virtually no immediate impact on shareholder wealth. However, cross-sectional analysis of announcement period abnormal returns showed that market reactions are more favorable when US establish JVs in Asian countries, and less favorable when firms establish JVs in low risk developing countries, and are less favorable when the JV is a manufacturing operation as opposed to a service operation.

Some of the questions we raise in our investigation regarding performance are the following, how do European and Latin American managers evaluate their venture's performance, what are the criteria they use? Are European and Latin American managers satisfied with their venture's performance? Do they have a short-term or long-term orientation regarding performance?

2.4 Summary: causal network

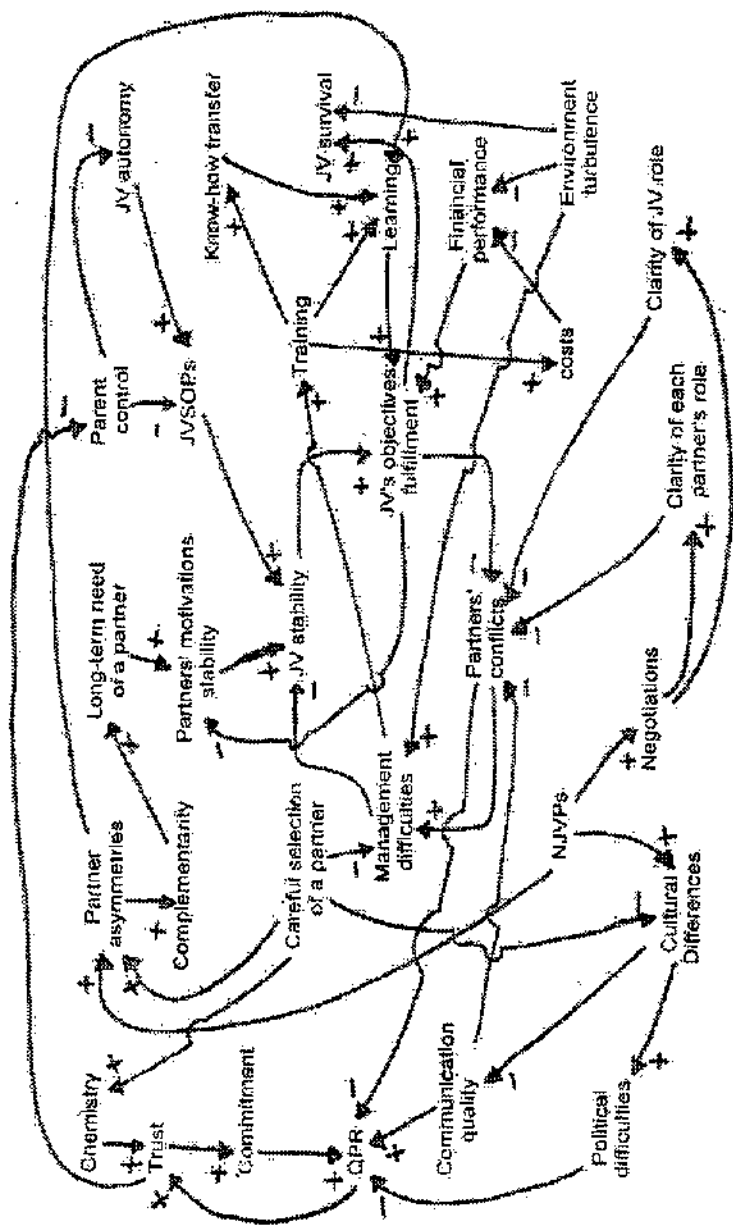
The literature review presented the most important aspects regarding JV's formation, design, management and performance evaluation, it allowed us to determine the major themes and research questions that are the focus of our empirical study. The final part of this section summarizes the variables presented in the literature review (table 12) using a causal network¹³ (Figure 12). Developing causal maps helps to reduce information overload and systematically represents results. A causal network is a display of the most important dependent and independent variables and the relationships among them. The relationship is directional instead of correlational with the underlying assumption that some factors influence other factors in a number of different ways.

¹³ In order to improve readability, the casual network exhibited in figure 12 presents only major relations among the different variables. The latter implies that other relations are possible.

Table 12: List of variables Influencing JVs

Variables related to the JV formation process	Variables related to JV management	Variables related to JV results
Number of JV parents (NJVPs.) Partners' motivations stability Complementarity Partner asymmetries Careful selection of a partner Trust Chemistry Commitment Negotiations Clarity of JV role Clarity of each partner's role	Management difficulties Cultural differences Partners' conflicts JV autonomy Parent control JV self-organizing properties (JVSOPs.) Political difficulties Quality of partner's relationship (QPR) Communication quality Training Long-term need of a partner Environmental turbulence	JV's objectives fulfillment JV stability JV survival Financial performance Learning Know-how transfer (technology/management / marketing) Costs

Figure 12: Causal network



2.5 Conclusion

This chapter reviewed the literature presenting 1) the main theoretical explanations of JV formation and 2) a systemic view of IJVs covering the most important aspects of IJV management throughout its life cycle. The exercise allowed us to broaden our understanding of the field, to identify the principal variables effecting JV management and their interrelations, and to identify gaps or possible research questions to build our empirical research. Chapter 3 covers methodological issues and introduces the qualitative research strategy that we adopted to conduct the empirical investigation.

3. METHODOLOGY

3.1 Introduction

Researchers in social sciences use various approaches to conduct their investigations. Quantitative and qualitative research are labels frequently used to distinguish between two different methodological approaches. Depending on the context, the research question, and the depth of knowledge in a specific area, either qualitative or quantitative methodologies are used (Yin, 1989: 16). We opted for qualitative research, section 3.3.2 provides a complete explanation of our choice. Choosing between a quantitative or a qualitative methodology obliges a researcher to think about paradigm issues, because they have significant implications at the practical level. According to Denzin and Lincoln (1994: 116) no inquirer ought to go about the business of inquiry without being clear about just what paradigm informs and guides his or her approach.

This chapter presents the different paradigms used in qualitative research as well as their practical implications. It also describes qualitative research particularities, and finally it introduces our specific research approach (case study) and design.

3.2 Competing paradigms in social sciences

According to Denzin and Lincoln (1994: 105) there are four paradigms that currently are competing for acceptance as the paradigm of choice in informing and guiding inquiry, especially qualitative inquiry: positivism, postpositivism, critical theory and related ideological positions, and finally constructivism.

Positivism has dominated scientific research for centuries because historically, there has been a heavy emphasis on quantification in science. Mathematics is often termed as the "queen of sciences", and those sciences such as physics and chemistry, that lend themselves especially well to quantification are generally known as "hard". Less quantifiable arenas, such as the social sciences, are referred to as "soft", less with pejorative intent than to signal their (putative) imprecision and lack of dependability. Scientific maturity is commonly believed to emerge as the degree of quantification found within a given field increases (Denzin and Lincoln, 1994).

The "received view" of science (Positivism, transformed over the course of this century into postpositivism) focuses on efforts to verify (positivism) or falsify (postpositivism) a priori hypotheses, most usefully stated as mathematical (quantitative) propositions or propositions that can be easily converted into precise mathematical formulas expressing functional relationships. Formulaic precision has enormous utility when the aim of science is the prediction and control of natural phenomena. Further, there is already available a powerful array of statistical and mathematical models. Finally, there exists a widespread conviction that only quantitative data are ultimately valid, or of high quality (Denzin and Lincoln, 1994).

Nevertheless, principles ensuing "exact" sciences were too rigid to correspond to social sciences research requirements. Social scientists developed alternative paradigms that reconsidered the utility of qualitative data and questioned the very assumptions on which the putative superiority of quantification has been made (Refer to Denzin and Lincoln, 1994 for a complete critique of the "received view").

3.2.1 The nature of paradigms

A paradigm may be viewed as a set of basic beliefs (or metaphysics) that deals with ultimates or first principles. It represents a worldview that defines, for its holder, the nature of the "world", the individual's place in it, and the range of possible relationships to that world and its parts. The beliefs are basic in the sense that they must be accepted simply on faith (however well argued); there is no way to establish their ultimate truthfulness (Denzin and Lincoln, 1994).

Inquiry paradigms define for inquirers what it is they are about, and what falls within and outside the limits of legitimate inquiry. The basic beliefs that define inquiry paradigms can be summarized by the responses given by proponents of any given paradigm to three fundamental questions, which are interconnected in such a way that the answer given to any one question, taken in any order, constrains how the others may be answered (Denzin and Lincoln, 1994).

1. *The ontological question. What is the form and nature of reality and, therefore, what is there that can be known about it. For example if a "real" world is assumed, then what can be known about it is "how things really are" and "how things really work". Then only those questions that relate to matters of "real" existence and "real" action are admissible; other questions, such as those concerning matters*

of aesthetic or moral significance, fall outside the realm of legitimate scientific inquiry.

- 2. The epistemological question. What is the nature of the relationship between the knower or would-be knower and what can be known? The answer that can be given to this question is constrained by the answer already given to the ontological question; that is, not just any relationship can now be postulated. So if, for example, a "real" reality is assumed, then the posture of the knower must be one of objective detachment or value freedom in order to be able to discover "how things really are and work".*
- 3. The methodological question. How can the inquirer (would be knower) go about finding out whatever he or she believes can be known? Again, the answer that can be given to this question is constrained by answers already given to the first two questions; that is, not just any methodology is appropriate. For example, a "real" reality pursued by an "objective" inquirer mandates control of possible confounding factors, whether the methods are qualitative (say, observational) or quantitative (say, analysis of covariance). (Conversely, selection of a manipulative methodology - the experiment, say - implies the ability to be objective and a real world to be objective about.) The methodological question cannot be reduced to a question of methods; methods must be fitted to a predetermined methodology.*

These three questions serve as the major loci around which the four paradigms are analyzed.

3.2.2 Paradigms as human constructions

As already noted, paradigms, as sets of basic beliefs, are not open to proof in any conventional sense; there is no way to elevate one over another on the basis of ultimate, foundational criteria. Any given paradigm represents simply the most informed and sophisticated view that its proponents have been able to devise, given the way they have chosen to respond to the three defining questions. The sets of answers given are in all cases human constructions; that is, they are all inventions of the human mind and hence subject to human error. No construction is or can be incontrovertibly right (Denzin and Lincoln, 1994).

3.2.3 The basic beliefs of received and alternative inquiry paradigms

Table 13 presents the different inquiry paradigms. The term positivism denotes the "received view" that has dominated the formal discourse in the physical and social sciences for some 400 years, whereas postpositivism represents efforts of the past few decades to respond in a limited way (that is, while remaining within essentially the same set of basic beliefs) to the most problematic criticisms of positivism. The authors use the term critical theory as a blanket term denoting a set of several alternative paradigms, including additionally (but not limited to) neo-Marxism, feminism, materialism, and participatory inquiry. The term constructivism denotes an alternative paradigm whose breakaway assumption is the move from ontological realism to ontological relativism (Denzin and Lincoln, 1994).

The paradigms discussed here are limited to social sciences and are still in formative stages; no final agreement has been reached even among their proponents about their definitions, meanings, or implications (Denzin and Lincoln, 1994).

3.2.4 Intraparadigm analyses (column of table 13)

Column 1: Positivism

Ontology: Realism (commonly called "naïve realism"). An apprehendable reality is assumed to exist, driven by immutable natural laws and mechanisms. Knowledge of the "way things are" is conventionally summarized in the form of time - and context - free generalizations, some of which take the form of cause-effect laws. Research can, in principle converge on the "true" state of affairs. The basic posture of the paradigm is argued to be both reductionist and deterministic.

Epistemology: Dualist and objectivist. The researcher and the investigated "object" are assumed to be independent entities, and the researcher to be capable of studying the object without influencing it or being influenced by it. When influence in either direction (threats to validity) is recognized, or even suspected, various strategies are followed to reduce it or eliminate it. Values and biases are prevented from influencing outcomes, so long as the prescribed procedures are rigorously followed. Replicable findings are, in fact, "true".

Table 13: Basic beliefs (Metaphysics) of alternative inquiry paradigms.

Item	Positivism	Postpositivism	Critical theory et al.	Constructivism
Ontology	Naive realism. "real reality" but apprehendable	Critical realism "real reality" but only imperfectly and probabilistically apprehendable	Historical realism – virtual reality shaped by social, political, cultural, economic, ethnic, and gender value; crystallized over time	Relativism – local and specific constructed realities
Epistemology	Dualist/objectivist; findings true	Modified dualist/objectivist; critical tradition / community; findings probably true	Dialogic / dialectical	Transactional / subjectivist; created findings
Methodology	Experimental / manipulative; verification of hypotheses; chiefly quantitative methods	Modified experimental / manipulative; critical multipism; falsification of hypotheses; may include qualitative methods	Dialogic / dialectical	Hermeneutical / dialectical

Source: Based on Denzin, N. K. and Y. S. Lincoln (1994). *Handbook of Qualitative Research*. London, Sage., 109

Methodology: Experimental and manipulative. Questions and / or hypotheses are stated in propositional form and subjected to empirical test to verify them; possible confounding conditions must be carefully controlled (manipulated) to prevent outcomes from being improperly influenced.

Column 2: Postpositivism

Ontology: Critical realism. Reality is assumed to exist but to be only imperfectly apprehendable because of basically flawed human intellectual mechanisms and the fundamentally intractable nature of phenomena. The ontology is labeled as critical realism because of the posture of proponents that claims about reality must be subjected to widest possible critical examination to facilitate apprehending reality as closely as possible (but never perfectly).

Epistemology: Modified dualist / objectivist. Dualism is largely abandoned as not possible to maintain, but objectivity remains a "regulatory ideal"; special emphasis is placed on external "guardians" of objectivity such as critical traditions (Do the findings "fit" with preexisting knowledge?) and the critical community (such as editors, referees, and professional peers). Replicated findings are probably true (but always subject to falsification)

Methodology: Modified experimental / manipulative. Emphasis is placed on "critical multiplism" (a refurbished version of triangulation) as a way of falsifying (rather than verifying) hypotheses. The methodology aims to redress some of the problems noted above (intraparadigm critiques) by doing inquiry in more natural settings, collecting more situational information, and reintroducing discovery as an element in inquiry, and, in the social science particularly, soliciting emic viewpoints to assist in determining the meanings and purposes that people ascribe to their actions, as well as contribute to "grounded theory". All of these aims are accomplished largely through the increased utilization of qualitative techniques.

Column 3: Critical theory and related ideological positions

Ontology: Historical realism. A reality is assumed to be apprehendable that was once plastic, but that was, over time shaped by a congeries of social, political, cultural, economic, ethic, and gender factors, and then crystallized (reified) into a series of structures that are now (inappropriately) taken as "real", that is, natural and immutable. For all

practical purposes the structures are "real", a virtual or historical reality.

Epistemology: Transactional and subjectivist. The investigator and the investigated object are assumed to be interactively linked, with the values of the investigator (and of situated "others") inevitably influencing the inquiry. Findings are therefore value mediated. Note that this posture effectively challenges the traditional distinction between ontology and epistemology; what can be known is inextricably intertwined with the interaction between a particular investigator and a particular object or group. The dashed line separating the ontological and epistemological rows in table 14 is intended to reflect this fusion.

Methodology: Dialogic and dialectical. The transactional nature of inquiry requires a dialogue between the investigator and the subjects of the inquiry; that dialogue must be dialectical in nature to transform ignorance and misapprehension (accepting historically mediated structures as immutable) into more informed consciousness (seeing how the structures might be changed and comprehending the actions required to effect change).

Column 4: Constructivism

Ontology: Relativist. Realities are apprehendable in the form of multiple, intangible mental constructions, socially and experientially based, local and specific in nature (although elements are often shared among many individuals and even across cultures), and dependent for their form and content on the individual persons or groups holding the constructions. Constructions are not more or less "true", in any absolute sense, but simply more or less informed and / or sophisticated. Constructions are alterable, as are their associated "realities".

Epistemology: Transactional and subjectivist. The investigator and the object of investigation are assumed to be interactively linked so that the "findings" are literally created as the investigator proceeds. The conventional distinction between ontology and epistemology disappears, as in the case of critical theory. Again the dashed line in table 14 reflects this fact.

Methodology: Hermeneutical and dialectical. The variable and personal (intramental) nature of social constructions suggests that individual constructions can be elicited and refined only through interaction between and among investigator and respondents. These varying constructions are interpreted using conventional hermeneutical

techniques, and are compared and contrasted through a dialectical interchange. The final aim is to distill a consensus construction that is more informed and sophisticated than any predecessor constructions (including, of course, the etic construction of the investigator).

3.2.5 implications of each paradigm's position on selected practical issues

Differences in paradigm assumptions cannot be dismissed as mere "philosophical" differences; implicitly or explicitly, these positions have important consequences for the practical conduct of inquiry, as well as for the interpretation of findings and policy choices. Table 14 summarizes the major implications (Denzin and Lincoln, 1994).

Concerning my position with respect to the different paradigms, I do not think that an objective reality exists but that reality is constructed. I assume that there are no universal laws applicable to management but rather context specific findings. Consequently, I selected the case study research strategy in order to gain access to context specific information describing the global functioning of European / Argentine JVs, and explaining the causes of their instability and performance within the Argentine context. We built our reasoning on previous quantitative and qualitative research in the field. The latter informed us about the most important variables influencing DCs – LDCs JVs. The empirical part of this investigation tries to understand how these variables behave in the Argentine context, and if our results verify or bring new insights to previous ones. The coming sections explain why we selected qualitative research, why we preferred the CS research strategy, what are its characteristics, and finally how we applied it.

Table 14: Paradigm positions on selected practical issues.

Issue	Positivism	Postpositivism	Critical theory et al.	Constructivism
Inquiry aim	Explanation: prediction and control		Critique and transformation; Resitution and emancipation	Understanding; reconstruction
Nature of knowledge	Verified hypotheses established as facts or laws	Non falsified hypotheses that are probable facts or laws	Structural/historical insights	Individual reconstruction coalescing around consensus
Knowledge accumulation	Accretion - "building clocks" adding to "edifice of knowledge"; generalizations and cause-effect linkages		Historical revisionism; generalization by similarity	More informed and sophisticated reconstructions; vicarious experience
Goodness or quality criteria	Conventional: benchmarks of "rigor" internal and external validity, reliability, and objectivity.		Historical situatedness; erosion of ignorance Action stimulus	Trustworthiness and authenticity and misapprehensions
Values	Excluded - Influence denied		Included - formative	
Ethics	Extrinsic; tilt towards deception		Intrinsic; moral tilt towards revelation	Intrinsic; process tilt towards revelation; special problems
Voice	"disinterested scientist" as informer of decision makers, policy makers, and change agents		Transformative intellectual as advocate and activist	"passionate participant" as facilitator of multi-voice reconstruction
Training	Technical and Quantitative; Substantive theories	Technical; quantitative and qualitative substantive theories	Resocialization; qualitative and quantitative; altruism and empowerment	
Accommodation		Commensurable		Incommensurable
Hegemony	In control of publication, funding, promotion, and tenure		Seeking recognition and input	

Source: Based on Denzin, N. K. and Y. S. Lincoln (1994). *Handbook of Qualitative Research*. London, Sage.: 112

3.3 Qualitative research

3.3.1 Definition

Different research methods and theoretical traditions fall under the category of qualitative research. Miles and Huberman (1994: 5-7), present some recurring features of this type of research:

- Qualitative research is conducted through an intense and / or prolonged contact with a "field" or life situation. These situations are typically (but not exclusively) "banal" or normal ones, reflective of the everyday life of individuals, groups, societies, and organizations.
- The researcher's role is to gain a "holistic" (systemic, encompassing, integrated) overview of the context under study: its logic, its arrangements, and its explicit and implicit rules.
- The researcher attempts to capture data on the perceptions of local actors "from the inside", through a process of deep attentiveness, of empathetic understanding, and of suspending or "bracketing" preconceptions about the topics under discussion.
- Reading through these materials, the researcher may isolate certain themes and expressions that can be reviewed with informants, but that should be maintained in their original forms throughout the study.
- A main task is to explicate the ways people in particular settings come to understand, account for, take action, and otherwise manage their day-to-day situations.
- Many interpretations of this material are possible, but some are more compelling for theoretical reasons or on grounds of internal consistency.
- Relatively little standardized instrumentation is used at the outset. The researcher is essentially the main "instrument device" in the study.
- Most analysis is done with words by establishing patterns.

According to Strauss and Corbin (1990), qualitative research implies any kind of research that produces findings, which are not arrived at by means of statistical procedures or other methods of quantification. Kirk and Miller (1986) define qualitative research as the tradition within social science that fundamentally depends on watching people in their own territory and interacting with them in their own language, on their own terms. Thus, qualitative research is committed to field activity. Even though the data may be quantitative (for example: documents, observations, census data etc.) the process of analysis is essentially qualitative, interpretative, and non mathematical.

Three major components of qualitative research seem to recur and categorize the qualitative approach. The first is data source, the second is interpretative or analytic procedure of conceptualizing the data and the third is reporting, Strauss and Corbin (1990). The data source essentially stems from the scientist conducting research within the field. After the data collection phase, the researcher interprets and conceptualizes the data. This includes the distinction between data and noise¹⁴, considering the research situation and problems as well as reflecting upon the research tools. After having interpreted the data, the researcher reports the findings and presents the acquired academic knowledge. Since no prepackaged designs of qualitative research exist, data collection and analysis depend on the aims, objectives, and focus of the research question.

3.3.2 Why choosing a case study as our research strategy?

Yin (1994: 1-15) explains that the use of a research strategy (experiment, survey, history, CS) implies a different way of collecting and analyzing empirical evidence. Moreover, each strategy has its own advantages and disadvantages. A common misconception is that the various research strategies should be arrayed hierarchically. According to Yin (1994) *"we were once taught to believe that CSs were appropriate for the exploratory phase of an investigation, that surveys and histories were appropriate for the descriptive phase, and that experiments were the only way of doing explanatory or causal inquiries. This view is incorrect; the more appropriate view of these different strategies is a pluralistic one. Each strategy can be used for*

¹⁴ "Noise" is the term used for unaccounted variance in the data (Lincoln and Guba, 1985).

all three purposes, exploratory, descriptive, or explanatory. What distinguishes the strategies is not the hierarchy, but three other conditions: the type of research question posed, the extent of control an investigator has over actual behavioral events, and the degree of focus on contemporary as opposed to historical events. Table 15 displays these three conditions, in each of the three columns, and shows how each strategy is related to five major research strategies in the social science: experiments, surveys, archival analysis, histories and CSs".

Table 15: Relevant situations for different research strategies.

Strategy	Form of research question	Requires control over behavioral events?	Focuses on contemporary events?
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes / No
History	How, why	No	No
CS	How, why	No	Yes

Source: Based on Yin, R. (1994). *CS Research: Design and Methods*. Thousand Oaks, Sage. Pp. 6.

The CS research strategy was preferred in this investigation for different reasons. First, the type of questions we deal with in our research are of "why" and "how" type (Why do European and Argentine firms form JVs? How do they create, manage and evaluate the performance of their JVs, why some JVs perform better than

others, and finally what lessons can be drawn from these experiences?). These type of questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence manifested by questions like: what, who, and how many. The other reasons refer to the extent of control over behavioral events and the degree of focus on contemporary as opposed to historical events. Each method, history, CS, and experiment presents its own particularities regarding the latter elements. Histories are preferred when there is virtually no access or control (dealing with the dead past, no relevant persons are alive to report, even retrospectively, what occurred. The sources are primary and secondary documents, cultural and physical artifacts).

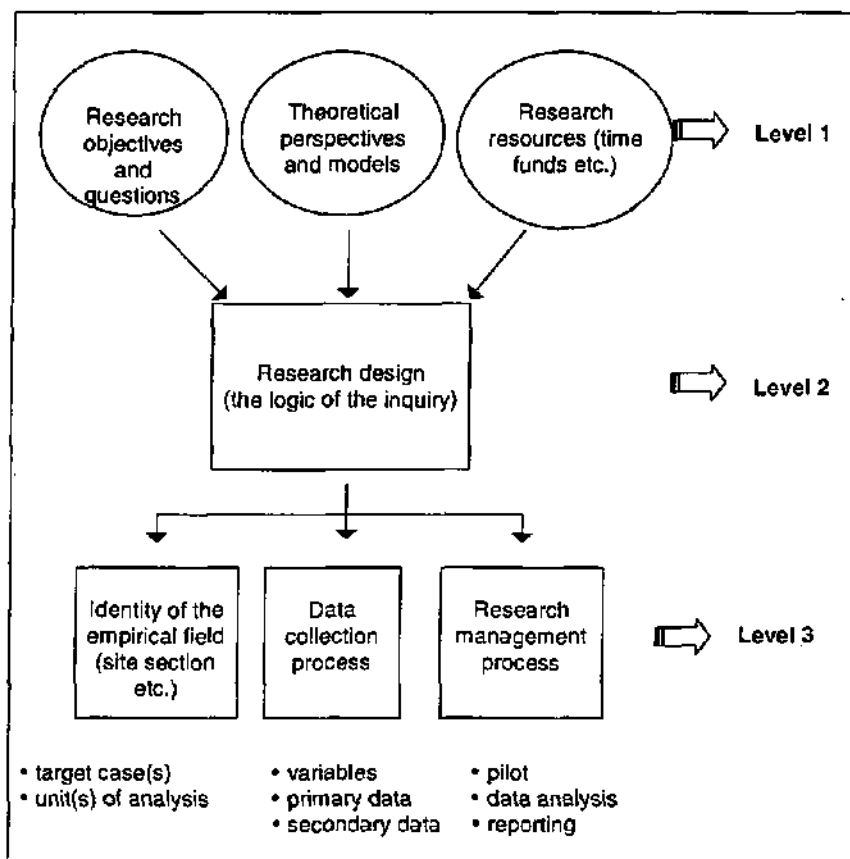
The CS is preferred in examining contemporary events, but when relevant behaviors cannot be manipulated. This uses mainly the same techniques as history but adds two sources of evidence, direct observation and systematic interviewing. The CS unique strength (confronted to history) is its ability to deal with a full variety of evidence. Moreover in some situations, such as participant observation, informal manipulation can occur.

Finally, experiments are done when a researcher can manipulate behavior directly, precisely, and systematically. This can occur in laboratory setting.

In our research we find in a situation where the CS strategy has a distinct advantage over the other strategies. How and why questions are being asked about a contemporary set of events, over which the investigator has little or not control. Having justified the choice of our research strategy, the coming section is going to concentrate in the different steps required in doing a CS.

3.3.3 Designing CS research

Borum (1991) presents a complete process to be planned in doing a CS, from initial design to data collection, analysis and report. The following figure shows the overall process.

Figure 13: The central function of a research design

Source: Based on Yin, R. (1993). *Application of CS Research*. Newbury, Sage. pp. 110.

3.3.3.1 Factors influencing the research design

The aim of this section is to explain how research objectives and questions, theoretical perspectives and models and finally research resources influenced our research design (level 1 in Borum's model). The research objectives in this dissertation are descriptive and

explanatory ¹⁵. We want to understand why European and Argentine firms form JVs? How do they create, manage and evaluate the performance of their JVs? Why some JVs perform better than others? And finally, what lessons can be drawn from these experiences?

These general research questions guided our literature review, which in turn lead us to the elaboration of a questionnaire covering major topics related to the JV life cycle: its formation process, its management characteristics, partner relationship and communication issues, external environment influence, and finally, JV performance (Refer to the systemic view of IJVs to have a complete view of the topics covered, you can also find the complete questionnaire in appendix 1). We can observe how our dissertation objectives have influenced our research design. The type of questions that we stated determined the type of information that we needed to collect and the way of analyzing it.

According to figure 13, the second factor influencing a research design is theoretical perspectives and models. Yin (1993) argues that theory can be important to CSs design in different ways:

- The development of a theory prior to the conduct of the study can be considered as critical because this approach to CSs mimics that used in experimental science, where expert knowledge of prior research and careful hypothesis development precede actual experimentation. The approach therefore requires to be well informed about the topics of inquiry and not simply to have a methodological tool kit. Moreover, the approach gives an opportunity to reveal (and minimize) substantive biases that may affect the design and conduct of the CS. Finally, the approach produces CSs that can be part of a cumulative body of knowledge rather than just isolated empirical inquiries.
- Theory is important for descriptive CSs because it defines a complete and appropriate description when doing this type of research. A descriptive theory is not an expression of a cause-effect relationship. Rather a descriptive theory covers the scope and depth of the object (case) being described. If you were to describe an individual, an organization, or some other possible subject of a

¹⁵ Descriptive CSs present a complete description of a phenomenon within its context, explanatory CSs present data bearing on cause-effect relationships (Yin, 1993).

CS, where should the description start, and when should it end? What should the description include, and what should be excluded? The criteria used to answer these questions would represent the "theory" of what needs to be described. This theory should be open stated ahead of time, should be subject to review and debate, and later serve as the "design" for a descriptive CS. The more thoughtful the theory, the better the descriptive case will be.

- Theory is important for explanatory CSs because by developing a set of rival explanatory theories, and by collecting the appropriate data, the investigator can empirically test the theories using pattern matching¹⁶.
- Finally, theory allows generalization from CS. The appropriately developed theory is the level at which the generalization of the CS results will occur. This role of theory is characterized by Yin (1993) as "analytic generalization" and is contrasted with another way of generalizing results, known as "statistical generalization". In statistical generalization, an inference is made about a population (or universe) based on empirical data collected about a sample. This method of generalizing is commonly recognized because research investigators have ready access to formulas for determining the confidence with which generalizations can be made, depending mostly upon the size and internal variation within the universe and sample. Moreover, this is the most common way of generalizing when doing surveys and it is an integral part of generalizing from experiments. The method of generalizing the results of CSs is not statistical generalization. This is because cases are not "sampling units" and should not be chosen for this reason. Rather, individual CSs are to be selected as a laboratory investigator selects the topic of a new experiment. Multiple cases, in this sense, should be considered like multiple experiments (or multiple surveys). Under these circumstances, the method of generalization is "analytic generalization", in which a previously developed theory is used as a template with which to compare the empirical results of the CS. If two or more cases are shown to support the same theory, replication may be claimed.

¹⁶ Pattern matching is the logic that compares an empirically based pattern with a predicted one (or with several alternative predictions). It allows an investigator to conclude that there is a causal relationship between two variables (Yin, 1994: 106).

From this perspective, theory means the design of research steps according to some relationship to the literature. Good use of theory will help delimit a CS's inquiry to its most effective design. In this dissertation, we developed a theoretical framework in chapter 2, it covered a variety of perspectives explaining JV formation. Such an enlarged JV vision was considered useful to approach the field with a broad comprehension of the object under study; it was also developed to link our findings to prior theories. The elaboration of a theoretical framework was completed with a literature review on JVs and resulted on a number of propositions that guided our questionnaire construction. It is evident that the theories that we selected to explain the JV existence function as filters through which we then analyzed the research object, they influenced our research design because they oriented our research questions, our propositions and so on...

The third factor influencing a research design is research resources. Time, funds, academic support offered etc. are variables that have a great impact in the matter. To what extent time and fund constraints will allow one to handle a single or a multiple CS? Will it be possible to undertake an international project implying several, more or less, long visits to foreign countries? This research project has benefited from the support of the Enterprise Institute (University of Neuchâtel) that contracted me as a teaching assistant and has greatly contributed to the project financing. It is also important to mention the financial support of the SDC (Swiss Agency for Development and Cooperation) through their "young researchers program", which allowed me to cover part of the expenses during my 3 months stay in Argentina (summer-autumn 1998) and my trips to France, Italy, Germany and the Netherlands (autumn and part of winter 1998) to collect the data. Finally, the CEMA University in Buenos Aires received me as a visiting scholar during my stay and facilitated contacts with local institutions.

Having presented the factors that influenced our research design we proceed describing some of its characteristics (level 2 of Borum's model).

3.3.3.2 Research design

A research design is the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of a study. It is a technical plan that deals with the resources, logistics, scheduling, and assignment of personnel, and other tasks involved in managing a research project. It attempts to link the beginning and ending of a study helping the investigator to get from here to there. The role of a

research design is to assure that the evidence to be collected is pertinent to the questions of a study and that the analytic strategies cover the rival hypotheses or competing concerns of a CS. It is a logic plan, connecting the study questions with data collection and interpretation and conclusions, not just a logistics plan (Yin, 1994).

Every empirical study has an implicit or explicit research design. For CSs four types of designs are relevant (single or multiple CS(s), one or multiple unit(s) of analysis). The answers to these design questions in our dissertation were determined by the initial research problematic. Since we wanted to understand why do European and Argentine firms form JVs? How do they create, manage and evaluate the performance of their JVs, why some JVs perform better than others, and what lessons can be drawn from these experiences? We necessarily had to study several JVs presenting contrasting paths of development and levels of performance to be able to make cross case comparisons.

Once the multiple CS design approach was adopted, we had to consider the other important issue, which was the definition of the unit(s) of analysis. For Yin (1994: 21) the unit of analysis is related to the fundamental problem of defining what the "case" really is. Is it about an individual? About an event? (a decision, a program, an implementation process, organizational change...). About an organization? Etc. It was easy to identify the unit of analysis to be used in our investigation because on one hand, our research questions were clearly focused on the JV entity and not on any other research object, and on the other hand, because previous investigations in the field were conceptualized using it as the unit of analysis. According to Yin (1994: 25) the inspiration from the literature to select the unit of analysis is important because the comparability of the study's results with previous findings is guaranteed. Consequently, our research design may be labeled as a multiple CS with a single unit of analysis.

Another decision we had to make concerned the procedure to analyze the cases, do we had to study them sequentially if yes in what order, or in parallel? It appeared irrelevant in our investigation to study the cases in a sequential manner since no chronological logic existed. The cases were to be analyzed instead in a parallel way, comparing the results obtained for each case on each particular topic covered.

Once we established what to study, we had to define the appropriate place to conduct the empirical research, the cases to analyze, how to collect the data, in sum we had to give an answer to level 3 questions of Borum's model (Figure 13). The following section presents the details related to the identification of an appropriate field.

3.3.3.3 Identity of the empirical field

Three points are important to mention regarding our field selection: the trial-and-error process that lead our decision from Ecuador to Venezuela and then to Argentina, the advantages Argentina presented over some other Latin American countries and finally the choice of the automotive and food industries.

3.3.3.3.1 The process leading to Argentina

Because of my Ecuadorian and Venezuelan origin, I first tried to undertake the empirical investigation in one of those countries. Unfortunately, the results of that first attempt were too poor in terms of access to cases of quality or industries of personal interest (we decided from the beginning of the research to focus in manufacturing, and not in service, mining or distribution. We also decided to concentrate in JVs gathering firms exclusively from the private sector).

The number of European - Ecuadorian JVs identified in Ecuador was very low due to the lack of foreign investment that has characterized the country in the last decades and to the poor level of development of its industrial sector. In addition, some exploratory interviews I conducted during the summer of 1996 showed the limited interest of the cases, since the JVs were constituted by foreign firms to fulfill local government investment restrictions. In that context, it was incorrect to define those JVs as strategic alliances or as real collaborations. The local partner's management role was often passive and its motivations were mostly guided by financial remuneration for its passivity. As a result, we had to consider another country for the empirical study.

The second country analyzed was Venezuela. Here again, the number of European - Venezuelan JVs in the industrial sector was disappointing. The most interesting sector to analyze was oil extraction, but as explained above, our initial case requirements were incompatible with the characteristics of the JVs found in this sector.

Finally we analyzed other Latin American countries like Chile, Mexico and Argentina for our empirical purpose. Argentina retained our attention because it has experienced a FDI boom during the 90s leading to considerable M&As, privatization and strategic alliance formation (Chudnovsky, 1994; América Economía, 1994; UNCTAD, 1997; Porta, 1997; Chudnovsky, 1997; Adarkar et al., 1997; Hinkelman, 1998) representing though a favorable context for our investigation. A short presentation regarding the Argentine global investment context follow.

3.3.3.3.2 Argentine FDI context

This section is aimed to present some general aspects regarding the Argentine global environment, a historical perspective of FDI in the country and finally the recent developments of liberal investment policies.

3.3.3.3.2.1 General aspects regarding the Argentine global environment

Argentina is a federal republic organized under a Constitution similar to that of the United States. It enjoys a democratic political system in which different parties actively compete. It is the 8th largest country in the world, stretching on an area of 2.8 million square kilometers and presenting a highly varied topography, ranging from fertile plains in the central region to mountains in the west and a semi-arid zone in the south. The climate varies from the subtropical to the sub Antarctic. Between these two extremes lies a wide temperate belt that has given Argentina its agricultural competitive advantage.¹⁷ The country benefits from other important natural resources such as oil, gas, hydroelectricity, mines and fish.

Argentina has a population of 35.5 million. Around 85% is of European origin predominantly Spanish and Italian, although British as well as other Europeans, Jews and Middle Easterners are also represented.

¹⁷ The world's most fertile farmland can be found within the 190,000 square kilometers of Argentine arable land. Stretching from the semiarid regions to the subtropical forests, the diversity of microclimates and ecosystems enables the harvesting of a great variety of crops. The low cost of land suitable for forestation and the high rate of forest growth (surpassing the average in leading forestry countries), have resulted in significant investments in this area (Hinkelman, 1998).

These different ethnic and religious groups coexist peacefully. Most of the population is middle class, and enjoys a high literacy rate, as well as a high enrollment rate in primary, secondary and higher education.¹⁸ Labor is comparable in skills and aptitudes with that of most DCs, especially at technical and professional levels (Hinkelman, 1998).

Argentina has a free market economic system. Due to the recent privatization program, the State now has a very limited role in the economy. The 1994 Report of the World Economic Forum classifies Argentina as the most open, least protectionist country in the world. Its currency is convertible to US dollars and there is total freedom for moving capital internationally (Hinkelman, 1998).

3.3.3.3.2 Historical perspective of FDI

According to Caballero (1997) and Hinkelman (1998), FDI has played an important role in Argentina's economic history. At the beginning of the 20th century, Argentina was a liberal democracy with the tenth largest economy and the sixth highest per capita income in the world. Its abundant natural resources, coupled with some of the best agricultural land in the world, attracted immigrants and development capital from around the globe. Indeed, these factors -together with a largely middle class population of European ancestry- made for a welcome and attractive environment for direct foreign investment. In the late 19th and early 20th centuries foreign investors, primarily from the US and the UK, rushed in to develop first infrastructure -ports, railways, electric power, natural gas production and distribution facilities- and later manufacturing operations.

From 1880 to 1930 the nation flourished with a stable currency tied to a gold standard and an annual average inflation rate of only 1.5 percent; between 1900 and 1920 gross domestic product (GDP) doubled. Moderate protectionism began to develop during the period of World War I; however, this focus on import substitution actually

¹⁸ Given the national tradition of investment in education going back to the last century, Argentina has an undisputed edge over the rest of Latin America in this area. The literacy rate of the population over 10 years of age is of 96.3% and the enrollment rate at elementary schools is just short of 100%. Argentina has one of the highest rates of university enrollment in the world. There are over two million university-graduated professionals. All of these conditions result in a well-educated and skilled labor force (Hinkelman, 1998).

opened additional opportunities to establish manufacturing plants in Argentina. During these years, major foreign corporations from the US, the UK, and Germany opened plants to manufacture electrical products, chemicals, and pharmaceuticals and cosmetics. Unfortunately, the prosperous times wound down, and the Argentine economy was seriously demaged by the economic dislocations of the Great Depression (Hinkelman, 1998).

Both demand and prices for Argentine exports fell dramatically, and the international climate of protectionism led to a domestically oriented economy and -during the 1940s- to the nationalization of some public services, such as railroads and power generation and distribution. Nevertheless, even during this period, foreign firms continued to establish Argentine plants to manufacture consumer durables for the domestic market, although they were hampered by a lack of locally available subcontractors, materials, and components. This situation led many operations to integrate vertically to produce the needed inputs. This expensive strategy was sustained by the monopoly and near-monopoly status the producers enjoyed in serving the isolated Argentine domestic market, but led to industries with a cost structure that was largely uncompetitive in international markets (Hinkelman, 1998).

Economic recovery and pent-up demand allowed markets to develop, and -in the late 1950s- led to the enactment of a pro-foreign investment regime. This policy shift attracted investment, primarily in the automotive, petroleum refining, chemical and petrochemical, and machinery and equipment industries. The resulting surge in foreign investment led in turn to over expansion in some areas and a subsequent halt in new investment. Until the turnaround in policy that decreed an open economic system under the Menem administration in the late 1980s that made Argentina far more attractive to international investment, most foreign investment consisted of the incremental expansion and upgrading of existing operations (Hinkelman, 1998).

3.3.3.2.3 Recent developments of liberal investment policies.

Thus far, the reforms of the Menem administration seem to be working in many critical policy areas. Argentina is still battling to become a stable, soundly developed economy, but the days of high volatility in macroeconomic variables and in government policymaking seem to have ended. Its weathering of the Mexican peso crisis was a good indicator of this new trend. The growing maturity of the system has begun to promise the stability that enables the longer-range business

planning that is critical to attracting foreign capital, and perhaps even more important has begun to restore the public's confidence in the political and financial system (Hinkelman, 1998).

The unprecedented economic growth led by the recent development of liberal investment policies has likely changed forever the pace of and attitude towards direct foreign investment in Argentina. Out of the depths of decades of managed economics and economic nationalism has emerged a more democratic, global market-oriented economy that is virtually wide open to foreign investors. Since 1989, Argentina has largely welcomed, and even actively encouraged, foreign investment, facilitating it to a greater extent than ever before. Argentina has, in a few short years, developed what is arguably the most liberal foreign investment regime in Latin America, and one of the most liberal in the world (Hinkelman, 1998).

The Menem administration's free market policies have swept away a great deal of excessive regulation, reduced tariff and non-tariff trade barriers, abolished the foreign exchange controls that had hamstrung its international economic posture, placed foreign and local investors on equal footing, and greatly reduced currency risk. In sum, the regime has created an entirely new playing field for foreign investors. Not surprisingly, some of the same investors who drained an estimated 50 billion USD in capital out of the country during the 1980s led the charge to put their funds back into the economy under more favorable terms. Roughly 47 billion USD in portfolio and FDI¹⁹ made its way to Argentina through 1996. According to Porta (1997), five general factors contributed to the country's investment environment improvement: the structural reform policies (particularly privatization, deregulation of activities and markets, and commercial opening); the Mercosur²⁰ formation; the price stabilization and reactivation of internal demand; the renegotiations of the external debt; and the opening of

¹⁹ Around 24 billion USD of FDI entered the Argentine economy between 1990 and 1996, which is equivalent to the average annual flows of the 1980s multiplied by four (Porta 1997).

²⁰ Mercosur is the common market formed by Argentina, Brazil, Paraguay and Uruguay (negotiations are under way to progressively include other neighboring countries). The combined population of the four countries is 200 million and the total GDP is approximately US\$ 1000 billion. Since January 1995, a common external tariff has been established, and most products enjoy total free trade inside Mercosur (Hinkelman, 1998).

local financial and capital markets to restriction-free foreign participation (Hinkelman, 1998).

The privatization of state-owned businesses such-as oil giant Yacimientos Petrolíferos Fiscales (YPF) and the national telephone company not only attracted FDI directly but also generated a strong positive sign to foreign investors. In fact, the privatization's policy objectives were not only focused on the public services restructuring but were also presented as part of the fiscal solvency and external debt strategy. Moreover, they were also part of the structural reforms' set aiming to liberalize the product and factor markets in which the commercial opening played a central role (Hinkelman, 1998).

The adoption of a rapid and general commercial liberalization program strengthened the pro-market reputation of the new generation of policies and favored the use of imported goods at a lower cost. An additional incentive for transnational companies ensued from the commercial liberalization program, since intra-firm trade and subsidiary specialization were facilitated. The strategy of fast reduction of tariff and non-tariff trade barriers inside the Mercosur included the adoption of an automatic program of customs dues reduction between regional partners. At the same time, the external debt renegotiations within the context of the Brady Plan, which ended at the beginning of 1992, contributed to the reduction of the country's risk premium evaluated by foreign investors (Hinkelman, 1998).

In the macroeconomic context, the stabilization shock produced by the Convertibility Law (which pegged the peso to the US dollar on a one-to-one exchange rate) boosted the internal demand from April 1991 until the end of 1994. This trend, resulted on one hand from a substantial change in consumer budgetary allocation and on the other hand on the formal credit system progressive rehabilitation. Its impact was differentiated between productive sectors, favoring mainly durable consumer products, mass consumer products and personal services, at its apogee. At the moment where the first signs of deceleration began to appear, the trend was abruptly interrupted by the "tequila effect" at the beginning of 1995, giving birth to a recessive period which lasted till the end of 1996 (Hinkelman, 1998).

Crippling barriers to foreign investment-such as outright bans on participation in some sectors and discriminatory operating approval procedures-have been removed. A 1989 amendment to the 1976 Foreign Investment Law provided for "national treatment" giving foreign investors the same rights and obligations as local investors. In

1993 measures contained in the 1989 Economic Emergency Law, the 1989 State Reform Law, and the 1993 Foreign Investment Law were combined in a single act known as Decree 1853, which has removed all restraints on foreign investment. Foreign entities may own 100 percent of Argentine companies and may repatriate capital and remit profits back to the home country without limit. In general Argentine laws, regulations, and policies do not interfere at all with foreign investment (Hinkelman, 1998).

In addition, the 1992 Bilateral Investment Treaty with the US, Argentina's largest foreign investor, guarantees US companies the right to invest in the private sector on a most favored nation basis, that is, at terms that are at least as favorable as those accorded to domestic or third-party investors. Other bilateral investment agreements are in force with Austria, Belgium-Luxembourg, Canada, Egypt, France, Germany, Hungary, Italy, Poland, Spain, Sweden, Switzerland, the UK, Chile, Turkey, Tunisia, The Netherlands, Denmark, China, Armenia, Romania, Finland, Venezuela, Jamaica, Ecuador, Bolivia, Malaysia, Portugal, Croatia, Korea, Peru, Israel, Cuba, Panama, Lithuania, Australia, Czech, Mexico, Vietnam, Ukraine, Senegal, Morocco and China. Treaties awaiting approval were signed with Indonesia, El Salvador, Russia, South Africa and Nicaragua. Further treaties or additional treaty provisions were under negotiation with Iceland, Norway, and the United Arab Emirates (Hinkelman, 1998).

Favorable results of this long-standing international interaction between Argentina and other nations include standards of business that are more or less in line with practices in industrialized countries and a net positive relationship between Argentine and foreign business interests, making Argentina an attractive place for foreign entities seeking business relationships. Argentina is perhaps the Latin American nation that is best disposed towards European and US business culture. Argentines are familiar with and continue to demand foreign products and services, which have long set the standard in the country. At present, this is particularly true for US goods such as consumer products and entertainment items. With local firms actively seeking foreign participation to raise capital and benefit from managerial and technological transfers, and the removal of all restrictions on capital movements, there seems to be few, if any, better locations in Latin America for growth-oriented FDI (Hinkelman, 1998).

Argentina's cumulative growth rate in its GDP has averaged 5.2% annually between 1990 and 1995 (the rate would be higher excluding 1995's negative figure). 1996 real GDP growth was 4.8 %, and 1997 growth was 8.6 %. Thus far, growth has been somewhat concentrated in certain manufacturing industries and not all sectors have benefited. According to Porta (1997), the same pattern is true for FDI. The sectors that have been closely related to the privatization process such as oil, utilities, and communications have concentrated around 60% of the FDI flows during the 1992 - 1995 period (first FDI wave). Other sectors of the manufacturing industry and banks have respectively attracted 26.8% and 8% of the just mentioned FDI flows as shown in the following table.

Table 16: FDI in Argentina, distribution by economic activities (1992-1995, in million USD)

	1992	1993	1994	1995	1992 - 95	%
Oil	1'013	2'594	435	316	4'358	26.9
Manufacturing Industries	438	677	1'601	1'628	4'344	26.8
Utilities	2'102	1'050	165	942	4'259	26.3
Trade	88	31	206	135	460	2.8
Communications	66	-46	335	516	871	5.4
Banks	216	484	110	483	1'293	8.0
Others	122	121	216	160	619	3.8
Total	4'044	4'911	3'067	4'179	16'201	100.0

Source: Based on Porta, F. (1997). *La Inversión Extranjera Directa en la Argentina en los Años 90. Factores de Atracción y Estrategias Empresarias*. Universidad Nacional de Quilmes, Argentina.

FDI volume in the bank sector during the 90's is similar to that of the 80's. Things are slightly different in the manufacturing industry where, on one hand, annual FDI flows are substantially higher during the 90's than during the 80's, and on the other hand, the sector's relative participation between 1994 and 1995 attained 44.6% becoming the leading sector.

By doing so, it enhanced the hypothesis of a second FDI wave, more linked to the industrial sector transformation but presenting different characteristics than those of the historical pattern.

Most of the FDI flows destined to the manufacturing industry during the 60's and 70's were oriented to the automotive sector and in a minor way to the petrochemical sector. They were driven, almost exclusively, by the internal market. The pattern changed during the 80's, where the agribusiness industry became the major FDI receptor, presenting this time, an export oriented profile. During the 90's, the FDI allocation pattern in the manufacturing industry evolved once again, combining partly the above models and inverting partly the above market orientations. According to official estimations, the three sectors just mentioned concentrated 92.8% of the FDI flows directed to the manufacturing industry during the 1992 - 1995 period. As shown in table 16, the food, beverage, and tobacco sectors predominated with 45.1% of the flows, followed by chemical and petrochemical industries with 33.2% and by the automotive industry with 14.5% (Porta, 1997).

Contrasting with previous decades, investments in the food and beverage sectors were oriented in general to the internal market and investments in the automotive sector were more export oriented (almost exclusively to regional markets). FDI flows in the food and beverage sectors have been concentrated in the most dynamic markets that are: branded products, dairy, and beer. These investments were led by new comers. In the chemical and petrochemical sectors two distinct processes appeared: On one hand, there were important investments in branded products (cleaning, and toilet articles); on the other hand, investments were directed to privatization in petrochemical poles. Finally, most investments in the automotive industry were drained by car manufacturers and assemblers. It is also important to mention the significant role played by investments in the auto parts sector where an important sector-based restructuring process took place. In both cases, newcomers participation was important (Porta, 1997).

Following the new FDI pattern, we started our case prospecting process in the automotive and food industries. Before presenting the JV cases we selected for our empirical investigation, we shortly describe some other important features of both industries (Porta, 1997).

Table 17: FDI in the Argentine manufacturing industry. Sector distribution (1992-1995, in million USD)

Manufacturing industries	Cumulated 1992 - 1995	
	Total	%
Food, beverage, and tobacco	1'961	45.1
Chemical industry, rubber, and plastic	1'443	33.2
Automotive industry (manufacturers, end suppliers), and transport equipment	631	14.5
Machinery	234	5.4
Common metals, and metal elements (excluding machinery)	103	2.4
Non metallic mineral products (cement, and ceramic)	80	1.8
Textile, and leather articles	24	0.6
Paper, edition, and printing	-135	-3.1
Total	4'344	100.0

Source: Based on Porta, F. (1997). *La Inversión Extranjera Directa en la Argentina en los Años 90. Factores de Atracción y Estrategias Empresarias*. Universidad Nacional de Quilmes, Argentina.

3.3.3.3.2.4 Argentine automotive and food industries.

Hinkelman (1998), explains that Argentina's manufacturing industry has an intermediate level of development, comparable to that of the Brazilian industry. Although it does not match the sophistication and performance of European, North American, or Japanese manufacturing, Argentine technological capacity is more developed than most other Latin American countries. Since the establishment of the current free market economic policy in 1989, Argentine businesses have been operating in an open and competitive environment similar to those of other free market economies.

Survival under such conditions would be impossible without the attainment of a certain level of technological capability. The principal factors which have put Argentina at this level of development are its experience with manufacturing, Argentine firms have been involved in such production since the turn of the 20th century, the generally high level of education of its population (especially its technicians and engineers), and the existence of a dynamic, demanding, and diverse internal market. As an example of its industrial capacity, Argentina possesses an automotive industry, which in 1994 produced 400,000 cars, supplying most of the needs of the internal market. Moreover, the domestic auto parts industry supplies most of the components for this production. Introduction of new models is just behind the schedule in Europe, with several European-introduced models having been recently produced in Argentina. The Argentine steel industry has also been a strong exporter of such high-quality products as seamless steel tubes for the oil industry, and Argentine engineering companies export complex equipment such as electric power turbines and offshore platforms (Hinkelman, 1998).

Even though manufacturing began in Argentina around the turn of the century, it did not become a significant activity until the 1930s. Between then and the mid-1970's, industry was widely protected against competition from imported goods. The most important manufacturing sectors prior to 1930 included midrange operations such as meat processing, milling, and brewing, with the textile industry also showing significant growth. Later, around 1940, the light metal-mechanical industry (particularly the production of finished goods) and some sectors of the specialty chemicals industry became substantial contributors. Towards the end of the 1950s and the beginning of the 1960s, the automotive industry became increasingly important, and along with it evolved additional metal-mechanical and machine-tools industries (Hinkelman, 1998).

During the 1970s, the manufacture of certain value-added products, such as household appliances, machinery, and equipment, developed for export, in particular to other Latin American countries. In fact, several Argentine industrial companies set up branches in importer countries. However, after 1976 this expansion faded because of problems with the overvaluation of the national currency and high interest rates (Hinkelman, 1998).

Since the establishment of the Argentine Convertibility Plan in 1991, manufacturing has recovered strongly. The basis for this recovery has mainly been the result of a boom in consumer spending following the establishment of economic stability. Consumer demand was supported by the reappearance of available credit, which had been unavailable during the previous decade, for consumption and for the purchase of consumer durables. However, it is unlikely that internal demand alone will be able to sustain this elevated rate of growth in the future, and the challenge for Argentine companies is to increase their exports, particularly those of higher-value-added goods. It is important to point out that since 1990, huge investments have been made in capital goods, most of them imported, resulting in annual manufacturing productivity gains of about 5 to 7 percent (Hinkelman, 1998).

3.3.3.3.2.4.1 Automotive industry

According to Porta (1997), companies in the automotive industry have invested heavily in the country looking to introduce new models and to produce auto parts at an international scale. Taking advantage of the sector-based norms, the already established foreign subsidiaries and the newcomers strategy is to attain a strong productive specialization, with an export capacity, and an extension of the product range offered locally, thanks to imported vehicles. In this globalization / regionalization strategy, subsidiaries reconvert by producing and exporting parts, components and whole vehicles to other subsidiaries of the corporation, forming part of an integrated production and commercialization network.

Even though the modality already existed in a reduced scale in the country during the past decade, the industry's restructuring initiated at the end of the 80's has amplified the phenomenon. Nowadays, car manufacturers incorporate state of the art technologies for the production and export of certain mechanic components and started to increase end to diversify imports for local vehicles (Bisang and Kosakoff, 1993).

This emerging specialization model was promoted deliberately by official policies during the 90's, with the intention to extend it to the finished vehicles segment. In 1991, a special protection system was introduced fixing import quotas for vehicles and benefiting established companies with lower import tariffs than those applying to other actors. In return, established firms were asked to increment their exports to compensate their increased level of imports as well as an investing plan to modernize, increase scale and decrease the range of vehicles

produced locally (Todesca, 1994). The system was planned to run until the end of 1994 and was then extended till 1999 broadening incentives and increasing the flexibility of compensation conditions.

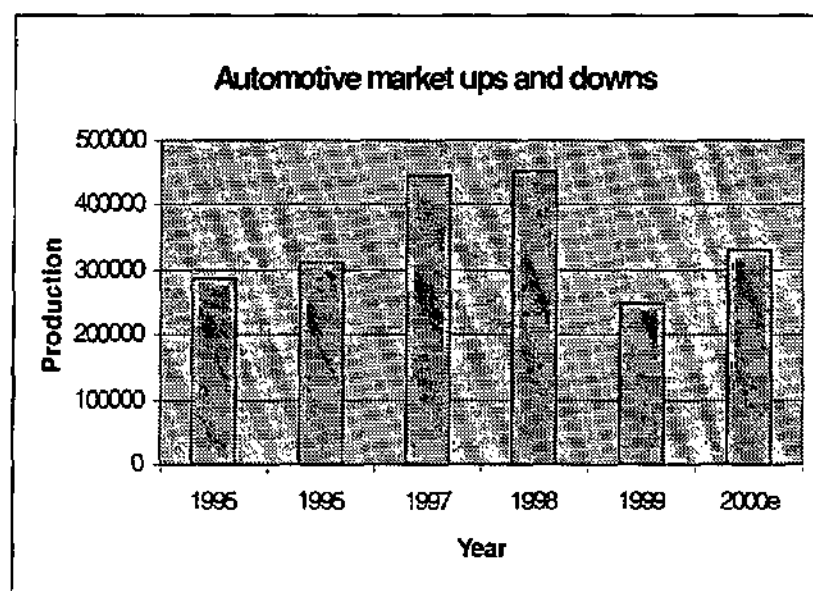
Following the same logic, a special agreement was signed within the Mercosur context, "Protocolo 21", which regulates the bilateral commerce between Argentina and Brazil following an equilibrated program by firm. It establishes exchange quotas for vehicles and auto parts and exempts tariff payment to goods exchanged under this modality. This group of policies has stimulated FDI in the automotive sector because they have tried to overcome one of the major weaknesses of the Argentine market, which is lack of scale. As Hinkelman (1998) explains, the main weakness of the Argentine automotive industry has been the dispersed production of a relatively large number of models, resulting in a lack of economies of scale in production for any given model or firm. The Car Industry Regime is a set of regulations aimed at compelling automakers to specialize in just a few models, thus producing at a level that allows competitive pricing and exports, while allowing them to import the models whose production has been discontinued under this plan. The best-selling cars in 1997 were the Renault 19 at 30000 units and VW Gol at 30000, while the minimum production level to achieve economies of scale to become competitive in international markets is considered to be about 100000 units per year. Other models sold include the Fiat Uno with 24000 units sold, and the Ford Escort with 23000 units sold. However, it is important to point out that despite its relative inefficiency, the Argentine industry is not merely an assembly line for foreign-made parts. Rather, the local auto parts industry supplies about 60 percent of all components used.

Following these policies car manufacturers and newcomers such as General Motors and Fiat developed important investment plans. Moreover, for the first time in the sector's history, a Japanese car manufacturer, Toyota, entered the market. The same trend is valid in the auto parts subsector, in which, although investments were made to extend existent capacity, the acquisition of local firms and the formation of JVs predominated.

If one should summarize, in one word, the vehicle production situation in Argentina and Mercosur since its first days, the word would be unstable (Adriano and Satomi, 1998; Bachelet, 1999). In 1994, Argentina's automotive industry produced 408,777 units marking a historical high in output and an impressive recovery from the recent low of 100,000 units produced in 1990.

The 1995 financial crisis had a strong impact on the consumption of vehicles, and production dropped to 285,435 units. By the second half of 1996, this trend had somewhat reversed and total 1997 production increased to 446,045 units (Asociación de Fábricas de Automotores (ADEFA), 1997). Production in 1998 rose to 455,400 units but because of the effects related to the Brazilian crisis Santander Investment estimates that the production will reach 248,753 vehicles in 1999 (Bachelet P, 1999). The following figure illustrates graphically the vehicle production in Argentina.

Figure 14: Vehicle production in Argentina



e = estimate

Source: Santander Investment

Truck and multipassenger transport vehicles production in 1997 was 21,000 units. The leader was the local subsidiary of Mercedes Benz, followed by the local branch of Scania, and Fiat Iveco (ADEFA, 1997). Companies in the automotive sector with their respective production volumes are presented in table 18.

Table 18: Argentine vehicle production (1997)

Firm	Volume
Fiat Auto Argentina S.A	97631
Ford Argentina S.A	96381
Volkswagen Argentina S.A	89772
Renault Argentina S.A	79552
Sevel Argentina S.A	29010
General Motors de Argentina S.A	20258
Mercedes-Benz Argentina S.A	17125
Toyota Argentina S.A	9899
Chrysler Argentina S.A	2460
Scania Argentina S.A	1877
Iveco Argentina	1700
El Detalle S.A	349
A. Y. L. Decaroli S.A	31
Total	446045

Source: Based on ADEFA (1998). *Industria Automotriz Argentina. Anuario estadístico*.

3.3.3.3.2.4.2 Food and beverage industry

FDI in the food sector is characterized by the creation of new plants, the expansion and diversification of businesses by already implanted foreign subsidiaries, and finally by the arrival of giant multinationals. Two factors are behind FDI flows in this sector, on one hand there is the impressive progression that internal demand experienced during the last years²¹ and on the other the commercial liberalization in general, and also within the Mercosur. It is important to remember that the food sector in Argentina was characterized throughout its history by a shared leadership played by big local companies, through branded

²¹ Investing in Argentina provides direct access to 35,5 million consumers with a per capita GDP of 9,200 dollars, as well as a diversified market that offers countless business opportunities. The dynamics of this market are impressive: from 1990 to 1998, the GDP grew 58%, reaching 334 billion dollars (Hinkelman, 1998).

goods production, and by foreign subsidiaries, through commodities and processed meat production and exports. The most important firms belonging to the latter category have expanded their production capacity and still concentrate the biggest export proportion (Porta, 1997).

Since 1992, several regional and transnational corporations' subsidiaries have penetrated the first market segment, mainly through the acquisition of national companies that possessed well known, and leader brands as well as developed distribution systems. Because of their relative scale advantages for marketing new branded products, transnational corporations' subsidiaries in the agribusiness industry can adapt better than their local counterparts to changes in distribution and commercialization systems (dominant role of big chains), as well as in consuming patterns. Considering the whole manufacturing industry, the best positioned industry in the FDI attraction ranking is the agribusiness industry, and it is by far, the most attracting industry for investment unrelated to sector-based regulations. Investment in this industry is fundamentally associated with internal demand (Porta, 1997).

We are not going to make an exhaustive presentation of all the sub-sectors in the agribusiness industry, we are rather going to concentrate in those sub-sectors presenting a direct interest to our CS which are: the alcoholic beverage sector particularly the wine sector, the fish processing sector and finally the biscuits and Confectionery sector.

Important FDI flows have been registered in the alcoholic beverage sector, particularly in the beer sector. Because of successful marketing strategies of leading local companies, domestic beer consumption has dramatically increased over the last decade. This fact as well as the certitude that the trend has not already attained its saturation point, have favored the entry of international producers, characterized by aggressive marketing strategies, through the acquisition of existent capacities or through greenfield projects (Porta, 1997).

A relatively similar process seems to be taking place in the wine sector, in this case, with a strong export orientation. The Argentine wine industry consists of two different markets: table wines, the so-called "common wines" (retailing for about 1.50 USD per liter and generally considered to be of low quality), for which there is heavy demand; and premium, or "fine wines", (retailing for about 5 USD or more per liter). The first market is dominated by large companies, such

as Peñaflor-Trapiche (220 million USD in annual sales in 1997), FECOVITA (121 million USD in sales), and Resero (102 million USD). Several small and medium-sized companies -including the Catena group, Bodegas y Viñedos Santa Ana (65 million USD in sales), Bodegas Chandon (101 million USD), Bodegas Esmeralda (19 million USD), Finca Flichman, Ortila, Lopez (26 million USD), and a great many small premium vineyards -make up the second market. Total wine sales in 1997 were near 9 billion USD.

It is important to point out that despite the high quality of Argentine wines, export volumes have been relatively low. Annual exports accounted for 35 million USD in 1994, but have grown substantially in the last years, to around 100 million USD in 1997. While Chilean wines of similar quality can be found on supermarket shelves worldwide, Argentine wines remain virtually unknown. This is due partially to the inability to produce the necessary volumes demanded by international markets, as well as to strong local demand that has left little excess production for export. The reduction in consumption during 1995 and 1996 pushed many local firms into making additional efforts to increase exports, with good results in Europe and the US. As far as common wines go, exports of unfermented grape juice and bulk wine have been growing, fueled by the reduced local consumption replaced by beer and soft drinks. In 1982, consumption of wine was 21 million hectoliters, in 1990-91 it declined to 17 million hectoliters, while by 1997 consumption had fallen by one-fourth to 12.9 million hectoliters.

The fishing industry is among those areas most likely to show improved export performance in the intermediate to long term, because of growing demand for fish products (associated with growing global demand for healthier foods) and the abundance of exploitable species in Argentina's continental sea; these include hake, squid, and anchovy. Large fishing fleets from Russia, Japan, Spain, and South Korea, among others, are permanently operating under license in Argentine waters.

Because of its export potential, the fish processing industry has attracted the attention of foreign investors as well as of local groups whose primary operations are unrelated to the sector. Argentina's exporting experience in this sector is recent, going back only 15 years. Nevertheless, yield volumes are considerable. In 1997, the marketable catch was approximately 1.3 million tons. In 1997, exports accounted for 1036 million USD. The main market is Japan (22%), followed by Spain (19%), Brazil (12%), and the US (9%).

Although the tendency among Argentine firms has been to rid themselves of satellite operations that do not fit with their core businesses, the fishing sector has maintained the interest of companies with no direct operations in the sector. For example, motorcycle-manufacturer Zanella has created Zanella-Mare, a fully equipped fishing company with the view towards exporting, while textile firm Alpergatas has invested 50 million USD in its fishing subsidiary, Alpesca (25 million USD in 1997 sales). The largest companies in the sector are Proyesur (42 million USD), Asc. South American (41 million USD), Patagonian Longlining (39 million USD), Explot. Pesquera de la Patagonia (26 million USD), and Harengus (22 million USD). The ten companies which follow these largest firms gross between 20 and 30 million USD each and the next ten firms gross between 13 and 19 million USD each. The overall market is highly fragmented. Given the abundance of fish resources existing in Argentine waters and the growing world demand for fish products, there is still room both for new companies to enter this sector and for the expansion of existing ones, particularly in value-added (processed) products.

Finally regarding biscuits and confectionery, the Argentine industry annually produces about 300 thousand tons of cookies and biscuits. The leading companies in the production of crackers and similar products include Bagley, a local company bought in 1994 by French firm Danone (213 million USD sales in 1997), and Terrabusi, recently bought by the US's RJR Nabisco (308 million USD). These two companies dominate the market. Other producers include Canale (181 million USD in sales), Pancrek (part of Arcor group), Granix, Mayco, and Capri. The leaders in the confectionery market are the local affiliates of the transnationals Nestlé, Kraft-Suchard (with 226 million USD in sales), Cadbury-Stani (100 million USD), and Georgalos, plus many smaller firms. Local group Arcor, one of the major powers in the Argentine agribusiness industry, is also a strong player in the confectionery market. Arcor is vertically integrated, producing its own raw materials, from glucose to packaging. These characteristics allow Arcor to keep its costs competitive, sustaining its exporting activities. Arcor grosses about 870 million USD annually and is a major exporter of foods such as jams and candies, as well as inputs for the agribusiness industry such as glucose.

Having justified the selection of Argentina, and its automotive and food industries as an appropriate investigation field, we present the JV cases we studied in both sectors.

3.3.3.4 Target cases

Eight cases were selected in two industries, five in the automotive industry and three in the agribusiness industry. The cases were selected using two main criteria: topical relevance which means that a case is best for the phenomenon being studied, and feasibility and access which means that some person or organization is willing to be the subject of a CS. Following the first criterion, topical relevance, our aim was to gather an interesting mix of cases that would allow us to fulfil our research objectives and enrich our analysis. The following constraints were used to select the cases in each industry:

- **Age constraint:** We chose JVs with a relative similar age (relative similar position in their life cycle curve) to increase comparability between cases. We excluded, with one exception, cases with less than 2 years of age to be sure to study JVs that got off the ground.
- **Performance differences constraint:** We chose JVs presenting different levels of performance to be able to analyze some of the possible causes of these differences.
- **Cultural differences constraint:** We diversified the origin of the European JV partners to analyze cultural impact on JV management. We selected companies representing Latin and Anglo-Saxon cultures (North and South cleavage).

Regarding the second criterion, feasibility and access, we first tried to identify the most interesting cases to study in Argentina²² using information from various sources: Fundación Invertir (the private Argentine Investment Promotion Agency), European – Argentine chambers of commerce in Argentina, European embassies in Buenos Aires, Argentine automotive and food associations, several consultants and lawyers working in Argentina and finally major national and international newspapers.

²² By most interesting joint venture cases we meant projects involving important national and international companies, having an impact on the local economy.

After identifying the potential participants, we contacted the national and international JV partners explaining them the purpose of the study and asking them to cooperate in the research project. We encountered a better participation in the automotive industry than in the agribusiness industry where two French multinationals with interesting projects preferred not to collaborate.

Table 19 shows several features of the cases analyzed in this dissertation. A presentation of each JV will then follow.

Table 19: Joint venture's characteristics

Industry	Local partner	Foreign partner	JV creation year	JV performance*
Automotive	Grupo RB	Benteler (Germany)	1996	Medium - high
Automotive	Grupo Montich	French company**	1997	High
Automotive	Caimari	Rieter (Switzerland)	1996	Medium - low
Automotive	Treymi	Treves (France)	1995	Medium
Automotive	Inmeba	Ascom Cea (Italy)	1997	Medium - high
Food (wine)	Bodegas Norton	Grupo Berberana (Spain)	1996	High
Food (starch)	Azo Aller Limpiar	Avebe (Holland)	1995	Medium - high
Food (Fishing)	Pescergen	Pescargen (Spain)	1992	High

* Refer to section 4.6 for details regarding JV performance evaluation

** The company preferred to remain anonymous

JV 1: BENTELER-RB: a joint venture between Benteler A.G. (Germany) and Grupo RB (Argentina).

The JV partners

The Benteler group is a German family owned company founded in 1876 and counts today with 33 factories in 12 countries (5 JVs, among which one in Mexico, one in Brazil and one in Argentina). It became an international company during the 90's, and employed 14.071 people reaching a turnover of 4.117,3 million DM in 1997.

The firm has 4 main divisions: Steel tubes, automotive, trade end mechanical engineering. In the Automotive division, Benteler is a "full service supplier" that conducts comprehensive development work from initial concept, full CAE analysis and life testing through to the manufacture and just-in-time delivery of components and modules.

Its four main product areas are: tubular components & systems (Benteler is one of Europe's largest manufacturers of seamless and welded tube), impact management products, body & structural components & systems and finally chassis sub frames & suspension components.

Following the trends in the automotive industry, Benteler develops and supplies high level modules or complete systems to fit directly into its customer's vehicles.

Grupo RB is also a family owned group from Argentina that started its activities in 1957. It consists of 7 companies and 3 JVs in its national territory, and employed 1700 people attaining a sales volume of 416 million USD in 1997. The group is the biggest auto parts producer in the country.

GRUPO RB's activities are Steel & services, automotive, machinery & industrial projects, marketing and finally transport. It benefits of a leader position in the Argentine market.

THE JV PROJECT

Benteler A.G. and Grupo RB decided to form a JV in Argentina in April 1996 to produce chassis components and suspension systems for their clients: Ford, General Motors, and Volkswagen. The investment responded to RB's need of state of the art technology allowing them to maintain their leadership

position in the local market by supplying the existent, and recently implanted vehicle manufacturers.

Because of the introduction of the "world car" concept in the country, the group had to realize a major technological upgrade, respecting new and much higher quality standards to maintain commercial relations with its clients.

One of the consequences of the sectors' technology shock was to force auto parts companies to become system producers instead of simply supplying parts. Grupo RB's direction decided to split strategically the firm's activities into two main areas. One that required state of the art technology (Product design, R&D...) and one that could be ran locally.

The technology acquisition strategy for the first category of activities was materialized by JV formation with global auto parts producers. Other motivations that GRUPO RB had when forming the JV with Benteler were to benefit from brand recognition, to acquire management know-how, and finally to integrate an international network.

From Benteler's side, the investment responded to their need to follow their customers in the development of new markets with the "world car" concept. They had to follow their

clients to offer them their products, expertise, and capabilities world wide, and by doing so, they reinforced their position as "world suppliers" ensuring future business in Latin America and the rest of the world.

The alternative consisting in exporting components from Germany was abandoned, since Argentina has sector-based regulations that handicapped strongly the option.

The JV organization form was chosen because Benteler follows a principle in its internationalization process that consists in entering a new market relying in the local partner's competence and knowledge of the market (Experience in the business, local knowledge, local connections or network, good relations with the customers, in this case: Ford, General Motors, VW, Renault). Benteler's managers believe that doing it that way they can penetrate better a market than doing it alone.

The JV negotiation process was very rapid, it took about six months from the first contact to the contract signature. The rapidity was due to the family owned character of both companies, which favored close personal relationships between negotiators and deciders. A restricted team of negotiators

closely related to each company's owner, represented each PC. The ensuing decision-making process was outstanding, avoiding the time and cost consuming travel through hierarchical levels.

One of the major difficulties during the negotiation process was to find a common understanding, a common vision about the business. It was very important to find out if they were talking the "same language", if they had similar views regarding the market situation, the market penetration, the way the business should be ran etc.

Close personal relationships and trust developed between partners helped a great deal in the process. The following steps of the JV creation were eased, since the global guidelines of the venture were already accepted.

However, the evaluation of each partner's contributions to the venture was difficult (know how, real state, machines, personnel etc.). After external auditors evaluated both partners' contributions, the capital structure of the JV was set: Benteler contributed with 51% and Grupo RB with 49%. Since then, the participation proportions have remained stable.

Benteler-RB is an equilibrated JV, despite partner asymmetries. Benteler's size is

10 to 15 times the size of Grupo RB (sales, personnel, and volumes...), one firm is international and the other operates locally, one firm has more than 100 years of experience in the European and world markets and the other 42 years in Argentina...

The balance that exists in the JV originates in the common understanding of the business and the management style of both partners. The JV is run locally (Argentine JV manager and personnel) and independently according to the BP settled at the beginning. A board of directors formed by three foreign and two local members controls the venture's work two to four times per year.

An important knowledge exchange exists between both partners. One side is learning about the Argentine and Mercosur automotive industry, its culture based business rules; its political, economical, social, legal, technological environments; its market organization etc.

The other partner is acquiring state of the art industrial and management technologies that influence the company beyond the boundaries of the venture. An example of change induced by the collaboration, is the application of a new matrix organization structure for the

group activities optimizing the use of internal resources.

Learning takes sometimes place through training programs on determined technical topics (planned learning), but it is more often the result of interaction between managers from both companies (non-planned learning). Grupo RB has learned to work with global players and has reinforced its multicultural skills through the collaboration.

The Argentine environment has not influenced negatively the JV despite the ups and downs that has characterized the Argentine automotive market throughout the past years, including the actual crisis.

One of the major reasons that have helped Benteler-RB to navigate with success under the stormy weather is that they have

limited investment as much as possible. They followed one of Benteler's principles, as stated by the JV GM: *"First see if you can earn money, then invest... We acted cautiously, investing according to the reality of the market and not to optimistic expectations... It is better to increase production than to have over capacity..."*. By following this strategy, they did not had to recoup the cost of huge investments, and have been able to attain acceptable financial results under changing economic conditions.

To date, both PCs are satisfied with quantitative and qualitative JV results. The JV turnover for 1997 was approximately 30 million USD and the company employed 100 people.

JV 2: TREYMI: a joint venture between Trèves (France) and Mithra (Argentina).

The JV partners

Having started in the North of France and in the textile world, the Trèves Group, founded in 1836 has, through the years, diversified its activities to become now a company at the leading edge of the automobile industry.

Since 1930, Trèves became partner of the French automobile manufacturers and has extended the partnership through the century to other European, American, and Asian major vehicle producers, such as: Volkswagen, Marutti, Audi, Mercedes Benz, Seat, Opel, Chrysler, Ford, Nissan, and Mitsubishi.

The Group operates 23 production plants around the world (with more than 10 JVs), and employed 4000 people reaching a turnover of 4.3 billion FFR in 1997.

Mastery of the required techniques and recognition of its skills led Trèves to a "systems approach" for dealing with the interior of the vehicle. Thanks to this uniform and consistent approach, the Group has the capacity, confirmed by

successful experiences, to design and industrialize complex sub-assemblies for the vehicle interior.

As a "federator", Trèves can offer this global approach in partnership with other component manufacturers and systems suppliers. As an "integrator", Trèves incorporates all the skills necessary for the development and manufacture of automotive interiors and engine compartment acoustics such as: textile, seat components, and complete seats, door panels, parcel shelves, carpet and sound insulation, boot trim, and acoustic treatment of the engine compartment.

Mithra is also a family owned group from Argentina. This was its first JV experience.

THE JV PROJECT

Trèves and Mithra signed the JV contract in November 1995, started industrial implantation in January 1996 and commercial activities in February 1996. With an initial investment of 8 million USD, the JV began producing state of the art sound insulation

products for almost all vehicle manufacturers in the country.

Other investments followed the initial market test, and the JV's product portfolio was extended with carpets, and seat components. It is important to mention that the company managers considered no other entry modes.

The two main reasons why Trèves went to Argentina have a common denominator, internationalization. On one hand, Trèves has a strong partnership relation with the French vehicle manufacturers, which makes that wherever the constructors go, the group has to follow. On the other hand, besides this exogenous pressure to internationalize, Trèves developed international growth objectives to reverse their 1996 situation where 2/3 of their turnover came from the French market. In other words, the firm wanted to be present in emerging markets characterized by high growth potential and it was a good opportunity to start operations in Latin America.

Other secondary motivations to form the JV concerned local partner know-how and connections, as well as reducing the project's total investment.

From Mithra's side, the JV formation responded to its need of state of the art technology. The automotive industry transformation that took place

during the 90's in Argentina made a technological upgrade vital to survival. Mithra's managers promptly understood the situation and started looking for a suitable partner at the beginning of the decade.

Several foreign companies were met and assessed but no one fitted Mithra's profile. The first contact with Trèves took place in September 1994 through its Spanish subsidiary. Business possibilities were explored during that meeting and a second contact with the Trèves family was fixed for December 1994. Deeper discussions took place dealing with the project viability and a first visit to Argentina was set for 1995. A group of Trèves technicians went to Buenos Aires in August 1995 and they made all the necessary quantitative and qualitative analyses (feasibility study). In November 95 negotiations were over and the JV contract was signed.

Other motivations, besides satisfying the need to upgrade technology were: lowering the total investment, benefiting from foreign management expertise, and gaining access to an international network.

The JV negotiation process took fourteen months from the first contact to the contract signature. Once again, the family owned character of both companies facilitated things in

this case, allowing frank and direct discussions between negotiators and deciders.

The only difficulty during the negotiation process came from a problematic relation between the local partner and a local client (local firm representing a French client). The problem was solved directly between Trèves and the French constructor in France, and the road was clear to end the negotiations.

The JV capital structure was based on an egalitarian participation principle, one of a 50% - 50% participation. Three years after, both partners are discussing the modality of a change in the JV capital structure. The French partner will play a dominant role in the JV in the near future dictated by an external and an internal factor. Clients, vehicle manufacturers, represent the exogenous pressure, since they concentrate the power. The decision trend in the automotive industry is characterized by centralization, in that context car builders want to treat with suppliers that centralize decision-making as they do. To centralize decision-making, one must have all the means to act in case of difficulties, and that requires majority.

The other factor, the internal one, is related to the difficulties the JV faced during its starting period. Treymi passed through a

period of 18 months of red ink, and its products faced costly quality problems. The situation was controlled after some time and effort and the Argentine partner ended expressing its will to step back from the JV management while giving more responsibility to the French partner.

There are important partner asymmetries between Trèves and Mithra regarding firm size, level of industrial development, organizational structures, turnover, volumes produced, personnel etc. As Trèves' Vice-Director explained, *"when we have to produce auto parts in Europe, we produce 1500 parts per day, here in Argentina we produce 50 per day..."*. All these asymmetries imply deep cultural differences at the industrial and business levels that caused some of the initial problems that the JV faced. The notions of quality standards, logistics, timing, had different meanings for each partner. It took some time to develop a common understanding about what the business was for the JV and how it had to be ran, in other words to develop the JV culture.

These cultural differences at the industrial level were not aggravated by cultural differences at the national level. Both respondents argued that the Argentine culture was quite similar to the south European

one, and besides some idiom difficulties they did not find any other problems to understand each other.

The JV GM remarked that despite the 50% - 50% JV structure, the JV was not balanced due to inequitable distribution of parent resources and Trèves had the power and control over it, although it applied in a democratic way.

Since the beginning of operations, two local GMs have directed the JV. The first director spent one month and a half on training in Europe before starting its duties. Unfortunately, he failed to manage effectively during the turbulent starting period of the JV and quit. He was replaced by Mithra's director, and remains the GM to date.

No foreign managers work in the JV because it is considered a small operation. There was only one Spaniard from a Trèves subsidiary that worked 15 days per month for 18 months during the JV starting period. After the start-up problems were solved, local personnel have managed the JV with Trèves training support.

There is also a very good communication and collaboration between Trèves subsidiaries' personnel and the JV. Whenever a technical problem occurs, Argentine people know whom they should

contact around Europe, and the networking brings solutions. As a conclusion, we can say that the JV is managed by locals but with a very strong technical and managerial foreign input.

Knowledge exchange and learning among partners is important, especially for the local partner. Besides technology transfer, Trèves has brought many modern management techniques related to quality, logistics, and organization to the JV and by osmosis to Mithra. The Argentine PC and the JV were not working under international standards and had to make big efforts to catch up. To summarize, we can say that they have learned to manage a complex international project.

From the other side, Trèves penetrated for the first time a Latin American market and lived a very enriching experience. They developed a good knowledge of the automotive business in Mercosur and the JV served as a first step to facilitate further development in Brazil. The local partner played an important role in this matter, they made the first contacts with the Brazilian partner and were supposed to participate also in the Brazilian JV, but things turned out differently and the French partner went to Brazil alone. Trèves has been more cautious in this investment

project to avoid the troubles they first met in their Argentine experience. They gave more initial support, they took more time before beginning operations, and they spent more time in training their Brazilian personnel in Europe.

In terms of organization, Trèves learned also to manage, for the first time, an international project from one of its subsidiaries in Spain.

The Argentine economic environment affected negatively the JV results during the first two years due to a market collapse in the automotive industry. In that context, the JV faced on one hand all the initial internal quality and production

problems and, on the other, external market variations. As we already said, the JV managed to solve its internal problems and adapted to the market dimensions and fluctuations.

Both PCs are relatively satisfied with the JV performance, because they have controlled the situation and after two exercises they finally reached positive financial results. Nevertheless, the French parent knows that no high profits will be attained in the Argentine market because of its small size, but neither will it be a source of problems. In 1997 the JV attained a turnover of 12 million USD.

JV 3: RIETER ARGENTINA: a joint venture between Rieter A.G. (Switzerland) and Calmeri S.A. (Argentina).

The JV partners

Rieter Automotive is part of the Rieter Group (founded in 1795 and quoted in the Zurich stock exchange since 1985)- one of the world's most important manufacturers of textile machinery for natural and synthetic fibers - with total sales of 2639 million CHF and 12'266 employees (1998).

Rieter Automotive Systems is one of the world's leading suppliers of noise control and thermal insulation system in motor vehicles. The division is a global systems integrator for the passenger compartment, the luggage compartment, the underbody and the engine compartment based on its core competencies of acoustic and thermal management.

The automotive industry's just-in-time manufacturing operations require across the world suppliers to produce near the vehicle manufacturing plants. Consequently, Rieter Automotive Systems operates some forty production plants in Europe, North America and Latin America, having formed

six JVs, among which, one in India, two in North America, one in Turkey, one in South Africa and one in Argentina. In other regions of the world, Rieter Automotive Systems serves its customers with the support of cooperative venture partners.

As an acoustic integrator, Rieter Automotive Systems takes responsibility for optimizing the acoustic characteristics of a vehicle, controls all development processes in this field and coordinates them with the vehicle manufacturers and other partners. The acoustic integrator's sphere of responsibility extends from the simulation of the entire vehicle in the earliest stages of preliminary development through the development of integrated and coordinated systems and components to their manufacture and finally to their installation in the automotive manufacturing plant.

Rieter Automotive Systems reached a turnover of 1636 million CHF, employing 7700 people. Their customer base includes Audi, BMW, Chrysler, DAF, Ferrari, Fiat, Ford, GM,

Honda, IVECO, Jaguar, MAN, Mercedes, Mitsubishi, NedCar, Nissan, PSA, RVI Renault, Rover, Scania, Saab, Toyota, VW, Volvo...

Caimari S.A.I.C.I. is a family owned company founded in 1900 that specializes in felt production using all types of fibbers and techniques. In the automotive industry, felt has broader applications than in other industries and presents a better development potential. The use of felt in the automotive industry contributes on one hand to reduce noise in the passenger compartment, and on the other to limit noise emission to the environment. It is also used in recovering, and finishing parts in the passenger compartment.

Caimari started to work under license of a European leader in the sector, a Swiss company named Unikeller, in 1982 (The Rieter Group then absorbed Unikeller). Caimari S.A.I.C.I. started to supply the automotive industry (Fiat and Ford) with its products in 1985. Today, the company is about to obtain the QS9000 certification and is a leader in supplying parts for almost all vehicles manufactured in Argentina.

Caimari sells for approximately 8 million USD per year, depending on the cyclical sectors' activity, and employs 150 people.

THE JV PROJECT

The Rieter Group and Caimari S.A.I.C.I. formed their JV in 1996. The alliance responded to Rieter's need to follow one of their important customers, Fiat, in its development in Argentina. Rieter co-designs parts with Fiat in Italy following the world car philosophy, and because the Italian firm was going to introduce the Paleo and Siena models in the Mercosur, Rieter had to follow them and offer the same services as in Europe.

The dilemma Rieter had to face was the following: on one hand, they were not able to work on this project through its Argentine licensee because its responsibilities towards Fiat under the world car concept were much higher than in other projects. Therefore, a strategy giving more control to Rieter had to be found. On the other hand, going to Argentina alone did not make sense because they did not want to compete against Caimari after having received know-how for fourteen years. In this situation, an appropriate strategy to follow appeared to be the JV.

Another important motivation Rieter had to form the JV, besides following Fiat in its development in Argentina, was to reduce costs. Caimari gave a great support solving all the new plant location difficulties, at the beginning of the project. The

Argentine partner also contributed supplying the JV with raw materials necessary to the production process that would have otherwise required additional investment.

From Caimari's side, the JV responded to the need to maintain business with Fiat. At the beginning, Fiat was going to invest in Buenos Aires with a local group and Caimari was going to supply parts directly to the new plant thanks to previous relations with the local group. However, negotiations failed and Fiat decided to invest alone in the Cordoba province. The new investment strategy forced component suppliers to follow Fiat to Cordoba building new plants near their industrial complex. Caimari was going to lose the possibility to supply components directly to Fiat in this new context, consequently, forming the JV was the only way to maintain business supplying raw material.

Another important motivation Caimari had in forming the JV was to maintain good relations with their license provider and by doing so avoiding additional competition. The JV was not a first best decision for both partners.

Once the general idea of forming the JV was established, negotiations to define roles, rights and obligations took place. At the beginning Rieter

proposed a 50% - 50% JV, but the project was too big for the local partner in terms of investment (its financing difficulties were accentuated by the Tequila crisis effects).

Because of its commitment towards Fiat, Rieter had no other alternative than assuming a bigger role in the investment of the new plant in Cordoba. Finally, an 80% - 20% JV was formed. Under these circumstances, Rieter benefited of all the power and control to run the project.

Nevertheless, Caimari participated actively during the JV starting period, choosing a manufacturing facility to rent, installing industrial equipment etc. Their participation in the JV has diminished over years, although they still play an important information role thanks to their valuable local knowledge and to the good relationship they maintain with the Swiss group.

The JV's capital structure has changed after two years of losses. Following the Argentine law requirements to capitalize after making losses, Rieter Argentina borrowed money from Rieter Switzerland, who left the capital as part of the JV, increasing its participation to 90%.

This JV brought together David and Goliath. All the asymmetries that we saw in previous cases

apply to this one too, for example, local company vs. International company; family owned vs. Publicly owned; scale economies vs. Low volumes; technology developer vs. Technology user; big and complex organization vs. Small and agile organization etc.

Some difficulties that the JV faced at its debut originated in the just mentioned asymmetries. Leaving aside financial disparities that caused the first obstacles during the negotiation process, we can mention decision-making as the second major variable giving headaches to JV partners. Time constraints characterized the whole JV starting period, production had to be ready at the right time, with the right quality etc., and decisions were not always taken as fast as the local partner might have wished.

At the beginning Caimari had to assume great responsibilities with little support from its Swiss partner. While time for starting production ran, Caimari had to deal with choosing a plant, renting it, installing industrial equipment, and discussing with their major client about technical aspects of products. Then, Rieter arrived and took things in hand, but according to the local partner they would have appreciated if their partner had arrived before. This episode shows two different basis of

decision-making. On one hand, there is a big and complex structure where decisions have to circulate through different levels to be approved, and on the other, a small and flexible organization where the owner runs the business and can make important decisions in a few hours.

But hierarchical levels is not the only factor influencing the time required to make decisions, the latter is also influenced by firm culture. As the local partner explained, *"we are in presence of a big firm and all their way of working reflects the big company mentality, which implies large-scale schemes. Argentina is a small market, things respond to another logic here..."* He also pointed the fact that their partner is Swiss and they have a perfectionist and structured way of doing things, which is good under certain market conditions but less adapted in others.

This difference in decision-making can be frustrating for both partners at times. Hopefully, each partner makes an effort to understand the other's working style and their old relationship helps to overcome certain differences.

The two GMs that have been appointed to date in the JV are Swiss. The reason behind their selection reflects Rieter's will to make sure the business is run

according to their philosophy. Fiat is an important client not only in Argentina but also in the rest of the world, so people understanding Rieter's way of doing things had to take care of the operation. The transmission of Rieter's culture to locals will eventually lead to a future Argentine GM appointment. There are no other expatriates working in the JV in Cordoba besides the GM.

As already mentioned, there is a more intense relationship between the JV and the foreign PC. Rieter Switzerland is actually organized through customer business units, in that context, a group of people in Europe is responsible for Fiat, or Renault, or Ford etc. Therefore, strategies are established for the world and then followed by each plant.

Following the same logic, the JV has to send a lot of information to the PC (reporting, controlling...). The local partner's actual role is a consulting one. They used to have a more intense relationship at the beginning of the operation, with the first GM. The relation between PCs is good although limited to few contacts per year, mainly when the board meets.

With regard to learning, Rieter's objective was to improve its understanding of the Latin American environment. The

Argentine operation was the first in the South American continent and it was important to get to know the way of doing business there. Rieter has learned that times have changed in some Latin American countries, that inflation and political instability are not what they used to be anymore.

The Argentine investment has been vital in Rieter's internationalization process because that first experiment allowed them to continue their regional expansion acquiring their Brazilian licensee. Today, the Swiss firm has developed a good understanding of the regional environment.

The JV has not offered the same learning possibilities to the local partner. Concerning technology they were already updated through their license agreement with Rieter and regarding actual management techniques, Caimari has not absorbed them because they are a small company that operates in a different way.

The Argentine and Mercosur global environment as well as too high market expectations has affected negatively the JV. Market expectations regarding the Mercosur automotive industry have been apparently overestimated by all car builders and by all sector-forecasting specialists. In Fiat's case, the Cordoba plant was installed for

a daily production of 650 vehicles. During the best times, production reached 400 units and the mean is approximately 320 units, which represents roughly 50%!

Production forecasts included exports to Brazil, but the Siena model did not work very well in that market, which explains lower sales accentuated by the economic crisis.

Some suppliers invested following the just mentioned forecasts and found themselves in a non-profitable, over capacity situation. Sales did not justify the investments required to set up a state of the art plant (infrastructure, quality systems...) In this context, firms like Rieter that invested too much found it difficult to make their investment profitable.

Nevertheless, the firm does not have a short-term view of the business, and executives believe that Mercosur has the potential to improve in two or three years. Both partners are not satisfied with actual financial results. Rieter's executives measure their venture

performance with other indicators besides short-term performance, they know that it has been an important step in their Latin American internationalization process, they also view the business globally and they are profitable in a world basis. They had to go to Argentina to accompany their major clients, and because the whole picture is a good one.

The local side has not a global business so they do not evaluate things in the same manner. For the local partner the investment concept was not the appropriate, installing a world class plant in such a cyclical market was not the best solution. Fiat pressure over suppliers to locate activities near their industrial complex was not a good idea; they were more favorable to limit investment to its minimum and to follow the market evolution supplying parts from Buenos Aires. Nevertheless, Caimari is participating to the business with limited investment so things have not turned so bad for them.

JV 4: BASE S.R.L. a joint venture between ASCOM-CEA (Italy) and Inmeba S.R.L. (Argentina).

The JV partners

ASCOM-CEA is an Italian family owned company that designs and produces mechanical and electromechanical assemblies, as well as instruments for production process automation.

Its activities include: assembly benches (reheating furnaces for rubber or synthetic parts, preparation tools, assembly tools, handling equipment), inspection equipment (characterization benches, seal tests benches, life test benches, inspection gauges), tooling and equipment for machine tools (part handling, positioning and locking devices, machining centers), overhauling (equipment in the machining line, equipment for standard compliance), dies (dies for chassis and framework), welding jigs (to assemble die-formed sheet parts).

The firm employed 44 people in 1998. Following the industry trends, ASCOM-CEA started internationalizing its activities concluding its first JV agreement in Argentina in 1997. Its main client is FIAT.

Inmeba S.R.L is also a family owned company and it started its activities in 1975. Its founder is an Italian descent that worked as an engineer for FIAT Argentina (The company that preceded the actual Fiat) for several years and then started his own business. He has accumulated almost a decade of experience working as a supplier for Fiat Argentina. In this context, his internal and external knowledge of the client, as an employee and as a supplier, made him a good potential partner for a JV. He knows the clientele very well, as well as the market, its environment, its methods, and its practices.

The company currently employs 22 people and had sales of 1.5 million USD in 1998. Inmeba's activities concentrate in the design and production of mechanical parts of a vehicle, particularly: special parts, special mechanic and electronic control and measurement gauges, moulds, matrixes, and assemblies for the metal mechanic and automotive industries.

THE JV PROJECT

ASCOM-CEA and Inmeba S.R.L. formed their JV in 1997 to fill in a gap that existed in the market. They started their operation offering control gauges and welding jigs to assemble car-body parts using state of the art equipment.

Today they are supplying and advising leading firms and are planning to make additional investments in 1999 to extend their offerings to integrated dies for chassis and frameworks.

The JV responded to ASCOM-CEA's need to fulfill its customers' requirements that are more and more oriented to the strategic globalization of their logistics, reducing drastically their suppliers. Fiat is one of ASCOM-CEA's major clients since 40 years and they have asked their supplier to follow them in their world initiatives.

ASCOM-CEA's owner was thinking about the possibility to expand its activities internationally for a while. He had opportunities to go to Russia, India or China but cultural distance was a major obstacle. ASCOM-CEA decided to go to Argentina because the cultural barrier was considered lower than in the other cases. In this context, the major motivation to form the JV was to follow their main client, FIAT, in its world projects and

consequently to become a leader partner maintaining good relations for future businesses.

Other secondary motivations behind the decision were the benefit of gaining local expertise, accelerated market entry, reduced costs, and finally as a way to develop new markets.

The JV was the only foreign investment option taken into account; it was unthinkable to go to an unknown country alone. It was necessary to find someone who knew the market, its methods, its practices, its standards, its laws etc. The main motivation to form the JV from Inmeba's side was to obtain state of the art technology.

The idea for a JV originated in a meeting of entrepreneurs held in Italy a few years ago. An Italian public relations company organized an encounter in the south of Italy with the objective of presenting some emerging markets' realities to Italian managers. During that meeting, ASCOM-CEA's director informed an Argentine government official about his intention of investing in Argentina for the FIAT project. Some time later, the Argentine government organized a meeting in Italy, to introduce a group of Argentine entrepreneurs working in the automotive industry.

ASCOM CEA and Inmeba S.R.L. CEOs met during that reunion and discussed the possibility to form a JV.

Both managers met in Argentina and Italy several times after that to refine the idea and familiarize themselves with the other's operations. A very close relationship ensued as both partners got to know one another, and today, as one of them said *"the friendship relation is stronger than the commercial relation"*.

Partner asymmetries are not so important in this JV, since both companies have relatively similar characteristics in that they are both family owned, small, local, and carry on several similar activities. The most important differences come from industrial culture. Italian and Argentine industrial contexts are very different and technology, quality standards, the way of doing businesses differ greatly. Not all these differences were perceived during the JV startup period, but they are coming to surface now.

Industrial traditions differ in that each country favors different management methods. According to the Italian partner, Argentine financial planning is substandard, decision-making takes too long, and there is a lack of rigor in implementing strategies not due to bad faith but because words or concepts

do not have the same meaning for each partner. Creating a common understanding of the business is a long and time-consuming effort that demands extensive communication.

Another asymmetry that exists in the JV refers to financial capacity. One of the JV's constitutive pillars is equality, which regulates all the JV's aspects (capital structure, decision-making, and distribution of benefits). Following this logic, a 50% - 50% JV was constituted.

However, after a year and a half passed, new market opportunities emerged and additional investments were required to satisfy market needs. It was necessary to act fast, but the local partner found it rather difficult to raise the amount of cash required because of the difficult credit situation in Argentina (besides the fact that it is difficult to borrow money anyway, with Argentine interest rates much higher than in Europe).

In that context, an arrangement was agreed to between both owners that consisted in integrating a third partner, an Italian industrial, in the JV. It invested an amount equal that of the other partners, and the capital structure was split in three.

The above-mentioned partner asymmetries considerably slowed down the JV's development pace.

The JV began its operations employing only local personnel. Several technicians made the outward journey return between Argentina and Italy during the JV launching period to complete their formation.

Another characteristic of that initial period was the lack of the GM figure. Both partners agreed to changing roles each year, one year one of them was the president of the company and the other one the administrative director and the following year the roles were reversed. Nevertheless, due to the JV's structure, it proved to be necessary to name someone to coordinate and to be accountable for the JV's activities. It became impossible to continue manage the parent companies' activities simultaneously with the JV's.

The current GM is an ex-Fiat manager that holds a purely administrative role. The Italian partner considered that it would be preferable to have more foreign personnel working at the JV, however, the operation's size could not justify the expense. The firm is currently employing between 14 to 40 people depending on the business cycle.

Inmeba's learning objectives are being met, they have acquired new technology in their core business (mechanics) and are expanding their expertise with the new JV activities (car-body activities). They are also learning at the management level through their interaction with the developed economies. New business organization techniques are being adopted and cost accounting instruments will be introduced soon. From the Italian side, there were not other learning objectives besides getting to know and to understand the market in Argentina.

The Argentine environment has not negatively affected the JV's results because it is a small operation where limited investments have been made (first investments totaled 3 million USD). Besides, Base's activities, which are for instance mainly mechanics (control of assembly lines, devices, gauges or development of new lines), are less subject to economic fluctuations than other activities in the sector. As long as clients develop new models and assembly lines in Mercosur, the future of the JV is guaranteed.

According to the PCs, it is too soon to have a precise opinion regarding the JV performance. Both think that they have had a good start, clients are satisfied, and Base is expanding

activities, integrating new equipment, and employing an increasing number of personnel. In sum, they are growing. Export opportunities are increasing for the Argentine partner, because ASCOM-CEA is transferring part of their businesses from Brazil to Argentina, benefiting from the JV's location.

Both PCs think that they have to wait a couple of years to have a better vision of the global

results. Although the Italian partner never expected the JV to be a gold mine, they are only 50% satisfied with the JV's financial results. The Italian's drive to go to Argentina was principally to follow their main client and to send an appropriate signal that would reinforce their image. An important side benefit that ensued from the JV for ASCOM-CEA is that they are working for the first time with Chrysler.

JV 5: EURMON²³: a joint venture between EUR (Europe) and Grupo Montich (Argentina)

The JV partners

EUR is one of the oldest multinational groups in the world and has a leadership position in the production of components for the automotive industry. The group operates in the Chemical industry and counts with 452 facilities in 42 countries employing more than 35,400 people. It attained a turnover of 8,696 million USD in 1998.

Grupo Montich is a family-owned group that has operated in the auto parts industry since 1958. Loyal to its objective of becoming a leader in its market, the group installed the Ferreyra plant in 1976 to produce truck chassis and is currently supplying IVECO S.A. In 1989, it obtained Renault's adjudication for gasoline tanks and became the first supplier implementing the just in time system with the French constructor.

Accompanying the automotive industry's expansion, the group acquired the Camino plant in 1991 increasing its production capacity by 300% and today becoming a leader in the production of stamping components and in the design and production of matrixes. Grupo Montich has also engaged in several JVs with a Brazilian and some European partners to update its technology.

Other important clients include Scania (Argentina and Brazil), General Motors (Argentina and Brazil), Volkswagen Argentina, Mercedes Benz Argentina, Ford Argentina, Fiat Auto Argentina, Bertrand Faure Argentina.

After consolidating its position in the auto parts industry, Grupo Montich began a diversification process leading to the constitution of a holding named IAM S.A.

²³ EUR and EURMON are fictitious names for the foreign PC and for the JV. The European partner preferred not to participate in the investigation.

The Argentine group counts today with a surface of 22,000 square meters and processes 1,300 tons of metal sheet per month. It employed 1,750 persons in 6 plants, attaining a sales volume of 111 million USD in 1998 (compared with 3 million USD in 1991).

THE JV PROJECT

EUR and Grupo Montich formed their JV in 1997 to produce plastic tanks completely equipped with an electronic gauge, pump, filter, filling tube and cap, ready to be assembled into the car body.

The investment reached 9 million USD and responded to Grupo Montich's need to acquire new technology for the production of fuel management modules. The Argentine group was producing metal tanks and noticed that most terminals were integrating plastic tanks in their new models. In that context, if they wanted to continue producing fuel management modules, they were obliged to acquire the new technology.

Grupo Montich's main motivation to form the JV was to continue making money in that business through new technology.

Other motivations that they had were to benefit from brand recognition (their European partner has a first class reputation), reduce total

investment, and gain access to raw materials and to international markets.

Their European partner was principally interested in entering the Mercosur market, reducing total investment and avoiding entry errors. As one of the local group managers indicated *"a big company can penetrate alone an emerging market but it will take longer and will probably make several costly errors"*, so the JV represented a good solution for both partners.

It was the Argentine Group who initiated the PSP. They encountered and discussed with two other candidates but they could not find a common understanding because foreign partners had other plans or because they were not interested.

Finally, they had the possibility to present the project to Grupo EUR and found a win-win situation where both partners perceived the opportunity to increase business volumes and thereby reducing their weaknesses by using their partner's strengths. In sum, the JV foundations were set in a synergetic context where the match of rational criteria was reinforced by a good "human chemistry". The project took three years to materialize from the first discussion to the contract signature.

As the presentation of both actors showed it, this JV is the encounter of two disproportional forces highlighted important asymmetries between partners.

Important differences included: size, resources, activities, and operating range. According to one of the local group managers, *"parent firm asymmetries facilitated the negotiation process because the confrontation potential diminishes when two unequal forces that operate in different areas negotiate"*.

Once the possibility to do business became reality, both partners put their cards on the table and defined what their contributions would be. This process set up a 60/40 capital structure for the JV. Two members represented the foreign partner in the board and one represented the local partner. As of this date, the JV's capital structure remains the same.

Roles in the JV were defined according to each partner's competitive advantage and its contribution. For example, the technology dimension is under the European partner, while responsibility and the commercial dimension is in local hands.

There is a good relationship between both PCs, which is characterized by trust and good communication; nevertheless

the relationship is bounded by commercial objectives. As one of the local group managers mentioned, *"building a relation between partners is important, it is important to trust the other but love is one thing and business is another. We formed the alliance to earn money and things usually work well when one earns money..."* A cost / benefit logic determines all the Montich group's actions.

Local group managers consider that cultural differences exist only at the firm level. According to one of them, things would be probably different with Chinese or Indian partners. He also remarked that a similar world and business vision existed between them and all their European JV partners characterized by the use of a common technical language, a similar cultural background, and international experience.

Nevertheless, some differences exist at the firm level where each parent firm presents some operating particularities. According to the informants, the differences that they find in the JV are the same differences one can find in any alliance involving a large partner and a small partner. The decision making process was an example where such differences manifested.

Because of structural reasons, timing is not the same for each company. European managers

have to consult their European headquarters and have to wait for the information to complete its processing cycle. Instead, Argentine managers meet and take key decisions very often during the same meeting.

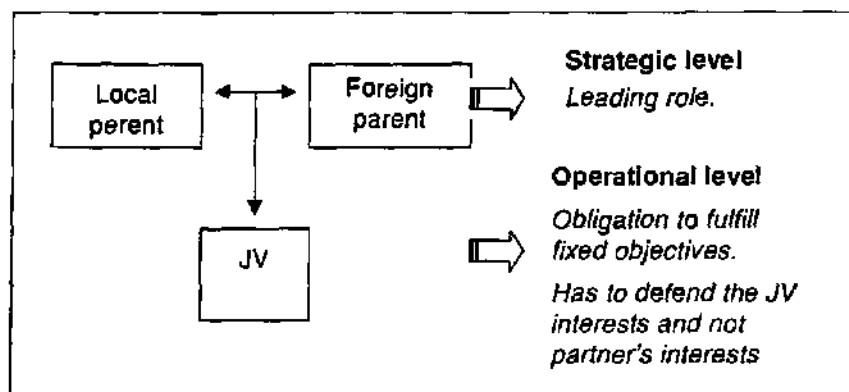
Other differences concern reporting, planning, and organizing methods. The JV has adopted the European partner style because it presented several advantages over the Argentine style. A good example is planning, where the European partner has a much conservative business vision and a longer experience. This kind of differences presents an important learning potential for the local partner.

Following the foreign dominance logic, the JV GM as well as the industrial and the financial managers come from the European PC. The commercial function is under Argentine hands. Both PCs follow closely

the JV and are in charge of the JV strategic dimension. The JV accomplishes basically an operational function as shown in figure 15.

The local partner perceives the Argentine business climate as favorable. There has been an important growth in the Argentine and Mercosur automotive markets, although below some experts' forecasts. Grupo Montich always keeps in mind that it is working in the Latin American context and therefore business has always been very cyclical and will continue to be for a long time. Generally, the economic environment has been a positive factor for the JV development and they were very satisfied of their results. They overcome with success the JV starting period, they are exporting to Brazil, they have multiple clients and they expect to be the number one in 1999.

Figure 15: Roles division between PCs and the JV.



JV 6: Bodegas Hispano-Argentinas (BHA): a joint venture between Grupo Berberana (Spain) and Norton (Argentina)

THE PLAYERS

In 1895, Edmund James Palmer Norton, an engineer working on the western section of the Trans-Andean Buenos Aires Railroad, fell in love with the beautiful countryside of northwestern Argentina. Norton settled in Lujan de Cuyo, in the Perdriel area of Mendoza, and transplanting vines imported directly from France, soon established a winery. The first winery located south of the Mendoza River, it bears his name still: Bodega Norton.

The Santos family took care of the bodega for a long period until an Austrian entrepreneur, Gernot Langes-Swarowski, purchased it in 1989. Since then, a dedicated team of professional wine experts has painstakingly renovated all vineyards and equipment.

Today, Bodega Norton is a model facility on both national and international level, with storage for 9,000,000 liters (of which one third are oaken casks) within its 1500 hectares expanse (of which 600 are planted with vines). Wines

offered by Bodega Norton include Cabernet, Malbec,

Merlot, Barbera D'asti, Sangiovese, Chardonnay, Riesling, Sauvignon Blanc, and Chenin. Its vineyards Perdriel, Agrelo, and Lulunta are located in Lujan and Medrano.

Norton's main objective is to make Argentine wines of the best quality able to compete at the international level. The various international awards that the firm's products have earned in recent years are the evidence that the firm is reaching its goal.

Norton is one of the leading producers of fine wine in Argentina exporting 22% of its wines to Australia, Europe, and South America. Bodega Norton employs 200 people and attained a turnover of 25 million USD in 1997. They have previous JV experience, having formed one in China.

Grupo Berberana now renamed Arco Bodegas Unidas S.A. is part of Cofir, a Spanish investment and management company focused on two key growth sectors, hotels and wine. Cofir's commercial strategy is to

consolidate and develop the strong market positions that both N.H. Hotels and Arco Bodegas Unidas enjoy, and to expand on this base both domestically and internationally.

Arco Bodegas Unidas is a leading Spanish and European wine group, market leader in Rioja wines and in expansion internationally both in production and exports. The group's rapid development from a small regional wine company has created the consolidation of the organization as a diversified wine group operating successfully both domestically and internationally. Today, exports to all the EU countries, Norway, US, Canada, Latin America, Japan and Australia represent 36% of total sales.

Arco Bodegas Unidas produces and commercializes both still and sparkling wines through the following brand leaders: Berberana, Marqués de Griñón, Lagunilla, and Marqués de Monistrol.

Arco Bodegas Unidas had operating profits of Pts. 328 million in 1993. In 1997, profits from operations grew to Pts. 1,825 million, 5.6 times what they were previously. Net earnings for 1997 also attained record figures of Pts. 1,504 million as compared to the Pts. 1,001 million of the year before, showing a 50% growth rate.

THE JV PROJECT

BHA was legally constituted in September 1996 to produce high quality wines for exportation and for the Argentine market. The general strategy was to use the international distribution capacity of the Spanish partner to increase Norton's sales around the world and to use Norton's production capacity to increase BHA's growth potential outside Europe.

Each company found a good complement on the other giving birth to a win-win partnership. Norton's role is to produce wine for BHA avoiding cannibalization within its other own products but also to produce for Arco Bodegas Unidas under their brands for the Argentine and the international markets.

The JV responded to Arco Bodegas Unidas' need to internationalize in order to diversify its production risks. The group passed through a bad experience during the last drought in Spain and it decided to provide itself with wine in other geographical areas to function normally in any weather situation.

This is the first JV Arco Bodegas Unidas has formed to attain the diversification objective. Other motivations the Spanish group had forming the

JV were to reduce the investment obtaining good quality products at very reasonable prices; to faster the entry to the Argentine market; to benefit from the local partner market know how and to increase Spanish wine sales in Argentina and Mercosur.

From Norton's side, the idea was to sell good wines, different from the ones they were already commercializing, following its Spanish partner oenological concepts (author wines). The JV allowed an increase of the production level reducing the ensuing unitary fixed costs. It also offered access to an important international distribution network, and to up to date marketing and management techniques. Secondly, the objective was also to gain experience with certain types of grapes.

The impulsion to create the JV came from the Spanish Group, which was looking to solve its medium and long-term growth difficulties through internationalization. They analyzed California, Chile, Australia and Argentina as potential alternatives but Argentina was preferred because it presented a clear competitive advantage over the other countries (Excellent agricultural conditions, Argentina's wine exports were underdeveloped compared to

Chile's, California's or Australia's... there were only a few foreign competitors in the market etc.).

They approached high quality wine producers with relatively weak international distribution channels. Norton was the second firm approached. Their first intent to form a JV failed at a developed stage because they could not build a common business vision. The whole PSP lasted two years.

Negotiations with Norton took roughly six months till both partners agreed on the JV general terms. The most difficult aspect during the negotiation process was to find a common understanding, to delimit each partner's roles, to share responsibilities and benefits.

Finally a 50,1% participation for Arco Bodegas Unidas and 49,9% for Norton was decided, the Spanish Group had to have the majority for administrative reasons (It was the only way they were able to consolidate their results in Spain by global integration).

The idea followed at the JV launching stage was to limit investment as much as possible till the real internal and external market potential was defined. Once these potentials would be defined, both PCs would invest accordingly. Therefore, the JV

started its activities using a nurturing organization model where the JV was only in charge of the commercial activity and where production, financial, logistics, legal, and data processing activities were under the responsibility of the local PC.

The JV did not have its own cellar or its public relations team or its accountant... and it benefited considerably of the cost advantages this organization model offered. The JV's initial investment was 250.000 USD and it started with two employees, the GM who was the Spanish Group exports director and his secretary. They were in charge of the JV commercial activities, they made the market survey and collaborated on the development of the new products. In other words, they helped the JV to make its first steps.

Regarding partner asymmetries, there are big differences between both companies that originate partly on size. Norton sells for 20 to 25 million USD per year while the Spanish partner sells for 150 million USD. The Argentine firm is a family owned business while the Spanish group is not and is listed on the stock exchange. The latter characteristic is important because it influences strongly a firm's business vision,

its culture. Norton privileges the concept of a "châtaau" cellar with its specific philosophy of high quality and limited production as well as a long-term business vision. On the contrary, Arco Bodegas Unidas has an important pressure to remunerate the capital invested, heving to improve its results and to grow constantly. In that context, the short-term is terribly important as described by the JV GM *"I come from a company where we have it very clear that our objective is to grow, to grow, to grow and to generate constantly added value for our shareholders. We come from a company where the return on capital pressure is brutal for each of its managers because our majority shareholder is listed on the Madrid stock exchange, because our majority shareholder is a financial corporation. Our partner here in Argentina is a family business. Lets say that it belongs to a single person that does not have to give explanations to a board of directors nor to the stock exchange of any country... We know that we have to give a good return to our stockholders and that the short-term is terribly important."*

Therefore, both companies have a different vision regarding the way to run the wine business. They managed to agree on a particular project but each

partner follows its business logic on its other businesses. This difference among visions limits the JV evolution and development. New market opportunities, new growth paths have arisen as the JV has attained partially its initial objectives but the local partner has not manifested its will to travel towards those new horizons.

Norton wants to stick to the JV initial purpose fixed in the contract while Arco Bodegas Unidas would like to broaden the JV scope. In this context the JV capital structure has changed to an 80% - 20% situation after the Spanish Group financed the new investments.

Based on trust and communication, the relationship between partners has been very important for the JV development process. It has allowed overcoming daily frictions and more critical divergent positions towards the JV future evolution. Each partner has made the necessary efforts to understand the other's position and no obstacles have been put to block the other's development.

The JV is viewed as a transitory organization form. The JVGM explained: *"May be the time to have our own cellar in Argentina will come, may be it will mean*

the end of the JV with our actual partner, may be it will mean the creation of another JV with another partner. There are several development stages, the first stage satisfied both partners, now we are not in the second JV stage we are in the second stage for our group here in Argentina..."

Nowadays the JV counts with two foreign employees, the JV GM who was the marketing director of the Spanish Group in Spain and another commercial manager. The remaining commercial personnel and the secretary are Argentine. The JV still works under the nurturing organization model, decisions are still made in consensus although the Spanish partner has the JV control.

The JV has been an important learning instrument for both companies. Arco Bodegas Unidas has learned to understand not only the Argentine market but also the Latin American one in general. In a broader sense, the JV has been essential to Arco Bodegas Unidas' internationalization process, it allowed the Spanish firm to expand its activities outside the old continent and the company has learned how to become an international player. Norton has also largely benefited from the JV in knowledge acquisition terms. The technical exchange has

been interesting, as well as the opportunity to interact professionally with a leading European group. The financial, marketing and management concepts employed by Berberana are relatively new in Argentina and it is an enriching experience to learn about another way of running the business. As stated by Norton's Chief Operating Officer *"Nowadays Spaniards are very good businessmen, they are very creative and know how to decide, they have the rapidity the European market requires... they understand much better the sense of risk and the expected value than us"*.

According to the JV GM, the Argentine business environment has been very positive for the JV development. The first thing to underline is the economic and political stability the country has achieved during the last decade, it has generated confidence in foreign executives and with out it, Arco Bodes Unidas would have never invested there. Another positive factor to mention regarding the Argentine environment is that if there is a

sector where the country has an international competitive advantage, it is in the agro-industrial one. Finally, 95% of the JV production is exported and the international market for wine is in expansion, therefore the situation has been favorable at a national and international level.

Both partners are satisfied with the JV performance, it sold 2 million bottles of wine for 10 million USD in 1997. The Spanish firm is investing more and more in Argentina and has aggressive plans for the next 2 years. Norton is satisfied partially with the JV results. BHA has surpassed the initial export objectives but has not reached the internal market sales objective. The JV was supposed to be self-financed by the internal market but developing a new brand in Argentina has been more difficult than planned. The internal objective will be probably reached in 1999. Nevertheless, the global balance is positive because BHA is exporting interesting volumes.

JV 7: AVEBE Argentina: a joint venture between ABEVE (Holland) and AZO-ALLER LIMPIAR S.A. Argentina

THE PLAYERS

AVEBE was established in 1919 as a sales organization for the greater part of the Dutch cooperative potato starch industry. By developing its own processes and products the cooperative expanded since the 1950's to become the world's leading manufacturer of potato starch and potato starch derivatives (producing roughly 4 million tons of potatoes per year). These are used in the food, paper, adhesives and textile industries, in the exploration and extraction of oil and natural gas, in the animal feed industry, in water purification processes and for many other purposes. The applications of starch derivatives in the agribusiness industry are numerous. Modern food manufacturers demand various functional and characterizing properties from the ingredients formulated into their products. The need may be for thickeners in soups and puddings; binding agents in meat products and extruded snacks; sweeteners for bakery goods and ice cream; texturing

agents for noodles and "low-fat" foods, or fillers for baby food.

AVEBE starches and starch derivatives are versatile and multi-functional, providing the perfect solution to the food manufacturer's specific need.

Apart from potato starch AVEBE increasingly processes tapioca, wheat and corn starch as basic materials for the derivatives production.

AVEBE has plants in The Netherlands, France, Germany, Thailand, USA, Indonesia and Sweden. The cooperative also possesses a worldwide distribution and sales network comprising its own sales outlets in most Western European countries, USA, South America and the Far East as well as agencies.

Through the membership of approximately 2250 farmers in Germany, AVEBE has become Europe's first cooperative with members abroad.

AVEBE attained a gross turnover of 1623 million NLG in 1997 employing 2700 people. The company has a unique organization given that it is a cooperative that belongs to five thousand farmers. They own the company, as sole shareholders, and they have also the right and obligation to supply potatoes to AVEBE. They have a farmer's board, under which there is a directive board with all the business units as shown in the organization chart on appendix 3.

AZO-ALER LIMPIAR S.A. has almost 15 years in the Argentine market. It is the result of an association between two Argentine entrepreneurs.

The company started with trading activities, importing all kinds of food ingredients for their customers. It grew quickly due to the fact that they could offer the required technical support by the introduction of new products, as well as during the joint development of new products with customers.

A few years later, the company decided to start up their own production facilities to meet the growing requirements of the market. AZO-ALER currently owns two plants for the production of special blends and food ingredients as modified xantangum, carrageenans, clarifying agents for beer and

wine, emulsifiers and improvers for pasta, baked products, potassium sorbate, natural cheese-powder, jellifying agents etc.

Additionally, AZO-ALER is the local representative for the following international companies: Redstar International (Universal Food) USA, Ernie Foods International Inc. USA, Meggle GmbH Germany, Riceland Foods Inc. USA, The Edlong Corporation USA, Zesti Smoke International USA, IDEA Italy, Albright and Wilson.

The turnover in 1995 was 7.3 million USD. The company has build up a portfolio of almost 600 active customers of which the main are the following MNEs: Estb. Mod. Terrabusi (Nabisco), Refinerias de Maiz (CPC), Alimentos Especiales S.A. (Philip Morris), Dulciora S.A. (Arcor), Solvay Enzimas S.A., Euralim (Sava-Gancia), CIA, Arg. de Levaduras S.A., (Bum Philipp) and other very large local food companies.

AZO-ALER is actively involved in different working commissions of the Argentine Chamber of Food Products (C.I.P.A.) through this organization they have a lot of important contacts in the South American agribusiness industry and can easily open doors to all export possibilities.

THE JV PROJECT

The JV between AVEBE and AZO-ALER started on December 1995. Its mission is to become the leading supplier of domestically produced and imported food ingredients based as much as possible on potato and / or other starches (including the development of special blends) for the agribusiness industry in South America by the year 2000, and subsequently expand that position to other parts of the world.

The JV is responsible for the production and sales activities in Argentina and South America. It is the knowledge center for all the food products produced by the two JV partners developing new blends for the South American market. Eventually, a transfer of the JV's production and research know-how could take place through license agreements to other parts of the world. The JV will also support the rest of AVEBE's agents on the continent.

The idea to form the JV originated on AVEBE's recognition in 1994 of the growth potential of the starch business outside of the EU countries and its probable positive impact on the company's future profitability. Since then, AVEBE Starches International chose Latin

America as a priority market to develop. The idea was to increase AVEBE's presence in the continent and to do so they decided to start reinforcing their presence in Argentina and then to penetrate progressively the Brazilian, Chilean, and finally the rest of the Latin American markets.

On the other side, AZO-ALER which already had business relations with AVEBE acting as their agent in Argentina since 1990, proposed to extend the cooperation by forming a JV to better respond to the growing market needs.

Discussions aiming to define the possibilities of collaboration started with one shared belief: both partners knew that a stronger collaboration would be profitable for both companies. The first discussions revealed an interesting potential for complementarity between companies. AVEBE could offer a complete range of food derivatives for the agribusiness industry and AZO-ALER could offer several food preservatives that AVEBE did not have in its product portfolio. The combination of both companies' products was valuable in the market, particularly in the bread industry.

AVEBE's motive to form a JV was to establish a competitive platform for food ingredients in Latin America, first starting in Argentina and then expanding to the other Latin American countries. It was also important to count with a local partner's technical support as well as with its local market knowledge, key contacts and distribution channels.

The reason why a JV was preferred to other investment alternatives is that the European business context is very different from the Argentine one and it would have been too difficult to succeed there alone. The local partner was looking for the support of a world leading company to help it expand its activities.

In this case, the JV negotiation process was complex and time consuming one. AVEBE's JV project team had to face obstacles not only at the external level (negotiations between partners) but also at the internal level (find internal consensus, approval and commitment).

At the external level, an agreement was to be found regarding the modalities of cooperation. Although the people in charge of the JV's creation shared a similar vision about the business, there were some diverging points of view

regarding the manner in which to translate the vision to the new organization. For example, how would AZO-ALER activities be integrated in the JV? In the beginning, AVEBE people wanted to integrate all AZO-ALER's activities (starch production and preservatives production) in the JV and sell all their products under AVEBE Argentina's name. The local partner initially agreed, but priorities changed as the negotiation process advanced, and finally it was decided to only integrate the products related to preservatives, and AZO-ALER would continue to sell its starch as usual.

Another issue regarded equipment for the JV. After some analysis, AVEBE decided not to buy its partner equipment of the production plant at Lomas de Zamora instead, they prepared an investment plan (4 million USD) for a new factory based on European GMP standards.

There were also some divergent points of view regarding the issue of the JV's control. The Argentine partner wanted to hold 51% of the JV, which was in conflict with AVEBE's policy of controlling its activities. After several discussions, both partners agreed on a capital structure giving control to AVEBE (51% - 49%). Building a shared business vision and

translating it to the JV organization through negotiations was not an easy task.

Things were not easier at the internal level for AVEBE, as the JV project team had to persuade AVEBE's internal people to sign the deal in Argentina. Some people in Holland had difficulties in understanding the real potential the JV was offering because it was a small operation and it involved few of AVEBE's products. They thought that a sales office was enough. In addition, the JV implied production facilities for products not related directly to AVEBE's core business, which are food derivatives and not preservatives.

AVEBE's JV project team fought hard to defend the business proposal and managed to convince AVEBE's directive board. Then the directive board had to convince in its turn the farmer's board. According to the Dutch JV project leader, that was the single biggest difficulty they faced during the JV development process.

The internal decision making process took time and it was not easy to explain to the Argentine partner why it took so long. This became one of their major conflicts given that, in Argentina, there are only two associates

that communicate frequently and take quick decisions based on that communication. For AVEBE, things are quite different as their institutional operating mode responds to a completely different logic.

Finally, after a year of negotiations, an agreement was reached at the internal and external levels. The following step concerned the legal aspects of the agreement. Although the most important aspects of the collaboration could fit in one A4 page, actually translating them to legal terms resulted in a very long and detailed document. It was also a time consuming phase, requiring frequent visits to the authorities to obtain the necessary approvals and paperwork.

Operationally, things have neither been easy at the JV. There are big differences between both PCs, starting with size. For example, it is easier for the European partner to finance an investment because, at the internal level, they count with more resources and at the external level, Europe currently offers more favorable borrowing conditions than Latin America.

Another example has to do with resources; AVEBE counts with advisors for everything, including legal advisors, technical advisors etc.

There are 1800 people in the Netherlands (2700 integrating the staff working abroad) compared to just 30 in Argentina, so Argentines often do not have all the knowledge for a specific problem.

From the cultural point of view, there is a classic contrast between the Northern European culture and the Latin culture. As an example, there exists a tension between a rigorous, structured approach to decision making and a more emotional one.

The decision making process is much faster for the Argentine partner for structural reasons as we just saw it, but also because they are used to spending less time analyzing a problem and making decisions on instinct.

According to the JV project leader in Europe, the Argentine partner has problems focusing on the strategy and is willing to pursue different market opportunities that are unrelated to the strategy based on the initial BP, despite the fact that they do not have an excess of resources.

Often, the European partner has to remind its Argentine partner about the initial strategy, in order to keep actions on track. Therefore, the challenge remains to find an appropriate balance between a more

structured (long term oriented) and a more entrepreneurial (short-term oriented) business vision. The ensuing discussions to bring this about, although time and energy consuming, end up being very useful to the learning process.

There is a very good relationship between the AVEBE JV project leader and one of the Argentine associates who is also the JV GM. They communicate often and solve any difficulties that may arise. The JV is run in a rather autonomous way by the Argentines, although someone in Holland closely follows the JV to ensure that directives are followed as they should be.

The Argentine and, in a broader sense, the Latin American economic environment has improved during the 90's, offering good growth opportunities to foreign companies. The Dutch partner considers that the Argentine global environment has played a positive role in the JV's development and they are satisfied with its performance. So far they are fulfilling their targets although they expected to attain them a little bit faster. At the time of the interview, they were in their third year of existence and had attained targets planned for year number 2.

JV 8: Pescargen: a Spanish - Argentine joint venture.

THE PLAYERS

Both PCs are family owned and were very reserved regarding their other private activities. The Spanish partner moved to Argentina to control the day-to-day JV activities following a bad experience they had in their first JV in Chile where their expectations were not met. They kept some activities related to the fish industry in Spain, mainly a firm that offers its services to the JV (recruiting, supplying materials non-existent in Argentina etc.). The local partner has interests in the real state business.

THE JV PROJECT

Pescargen S.A. began its production and commercial activities in January 1992. The JV's mission is to export good quality frozen fish mainly to European markets.

The idea to create the JV originated on one hand in the shortage of fish that most European fishery firms are facing which threatens their long-term survival. On the other hand, the local partner had fishing licenses to exploit the

fish resources of the Southern waters but lacked modern fishing technology to exploit the resources. Growth for the Spanish firm in question, as well as for all the other European fishing firms, is limited by the lack of fish existing in the waters where they operate. At the time, Argentina offered an important fishing resource, which became more accessible and the country opened the industry to foreign capital by signing a fishery agreement with the European Union.

In that context, there was a 100% complementarity between companies. The Spanish partner had over capacity and the Argentine partner had fishing rights. Consequently, for the Spanish partner, the main motivation to form the JV was access to raw material. To a lesser extent, the Spanish sought to integrate a local network, benefit from the local partner's technical and managerial expertise, and, finally, access to capital.

For the Argentine partner, the most important aspect of the venture was to acquire modern fishing technology as well as an

access to international distribution channels to export the JV products around the world.

Both PCs have a long experience in the fishery industry, which they have transferred to the JV.

With its five ships, Pescargen captures, processes and commercializes congealed fish products from the high seas, mainly hake, prawns and to a lesser extent codfish, groupers, hake of tail, and gumard.

Since the beginning of its activities, Pescargen tried to open new markets and is currently marketing its products around the world, principally to the European Union, accounting for 70% of production, 20% to Israel and the Middle East and the remaining 10% to the rest of the world.

Pescargen applies exigent quality and sanitary norms in the processing of its products, and it also fulfils the HACCP methodology on board its ships, which assures clients of the superior quality of its products.

In 1998, Pescargen exported 10,500 tons of processed products, which is equivalent to 9.5 million USD. Besides its fleet, Pescargen owns a refrigerating plant located in the city of Puerto Madryn, Province

of Chubut, in the industrial fishing park. It has a covered surface of 8,000 square meters and counts with three cold rooms with a capacity of 2,500 tons. The excess capacity of the refrigerating plant is rented to other fishery companies.

It was the local company that first provided the impetus to create the JV. The Spanish firm had already been approached by 6 or 7 entrepreneurs offering to start a collaboration, but it was not possible to close a deal because of a lack of chemistry and trust between partners at the startup of the relationship.

This trend was reversed when they met the Argentine partner, probably because they discovered that they had a similar traditional vision of the business. It took them more than a year to sign the JV contract, as the Spanish partner needed some time to perform due diligence on local partner, particularly relating to the fishing licenses. They also wanted to get to know their partner better, finding out what were its past activities, what was its knowledge about the fishing business, what contacts did they have in the country, etc.

The good relationship that both partners enjoy today is the product of the initial goodwill that existed between them and the confidence that developed

as the relationship grew. For the Argentine partner, the relationship between both firms is really a critical aspect. He explained: *"the JV was formed to earn money but more than that it was conceived thinking in a job for the entire life, both of us believe that this is not just a business."*

Good relations between partners have helped the JV to overcome difficult situations like the ones it faced during 1993, only one year after its creation. In that year, Spain and Italy devalued their currency and sales dropped dramatically while stocks took the ascendant trend creating a situation with a lot of friction.

The negotiation process presented no particular difficulties. The Spanish partner has the majority of the JV (70%), as they basically contributed with ships. The partners divided functional roles according to each other's competitive advantage.

The Spanish partner was allotted the production and technical functions, while the Argentine partner was charged with the legal, accounting, human resource, public relations, and sales matters. The JV is managed by the two owners (there is no external GM), the JV president and vice-president, which come from the

Spanish family, and the JVGM is the Argentine associate. The JV management follows a consensus approach, both partners discuss and have voice when solving problems or thinking about the JV's future.

The majority of the personnel working in the JV are from Argentina. At the beginning, ships were operated by Spaniards but currently locals have replaced 50% of the Spanish personnel. Nevertheless, key positions are still in hands of Europeans.

Culturally, there are no significant differences between partners. At the industrial level, there were some differences that ensued from the industrial context of each country. For example, the technology used in each continent was different but due to all these years of cooperation, the Argentine partner has caught up.

At the national level, the Spanish partner had to learn about the business norms in Argentine and its economical, political, social environment.

Technology knowledge or knowledge referring to the Argentine context was acquired by both partners by osmosis, through day-to-day interaction. No knowledge transfer objectives were explicitly formulated. Despite the little

differences that can exist, partners enjoy good communication: clear and with no ambiguities.

Referring to the Argentine environment and to its impact on the JV development process, both partners agreed on the positive role it has played, at least in the initial stages of its development. Argentina facilitated access of foreign capital targeted to the fishing industry through the agreement the government signed with the EU. Besides, the political, social and, most importantly, economic stability the country has offered during most of the 90's has been favorable not only to this business but to the entire economy. Nowadays, things have changed some not only at the macro economic level but also at the level of availability of resources. The fishery

resources of the country are diminishing; too many people have fished with little control and some species could be in danger of being depleted in a few years. The government has taken measures but often the political logic prevails over the scientific logic. The diminishing resources have provoked also some nationalist reactions against foreigners.

Both partners are satisfied with the JV's performance. All the initial objectives have been met, their turnover borders 10 million USD a year selling to Spain, Italy, Greece, Israel, Syria, Jordan, and the US. The situation they now have to face is different than the initial one: they have to fix new objectives taking into account their position in their life cycle curve and the external conditions change.

Having presented the different JVs that we chose for conducting our empirical research, we are going to terminate the presentation of level 3 elements according to Borum's research design model (Figure 13).

3.3.3.5 Unit of analysis

As already mentioned in section 3.3.3.2, the unit of analysis selected for this investigation is the JV as defined in section 1.6, which includes the foreign and local parents as well as the legally distinct entity they have created pulling part of their resources.

3.3.3.6 Data collection process

The data collection process deals with the appropriate manner of bounding the case with regard to time, participants and relevant evidence. The data collection strategy used in this CS can be referred to as a "one person and one time data collection". Information was collected mainly through interviews by one researcher during a three-month trip to Argentina in 1998 (from the 15th August to the beginning of November 1998). A few days were allocated to collect the relevant evidence for each case through visits to the JVs and to the local PCs. The data collection process was completed from November 1998 to December 1998 when the researcher returned to Switzerland and started the second round of interviews visiting the European PCs in France, Germany, Holland, Italy and Switzerland. All the visits to the European PCs were not necessary since some informants were in Buenos Aires at the same time the researcher was there (For more information regarding the interviews refer to appendices 4 to 11: contact summary forms(CSF)). Further phone contacts with key informants were established to complete information and to follow the evolution of the JV.

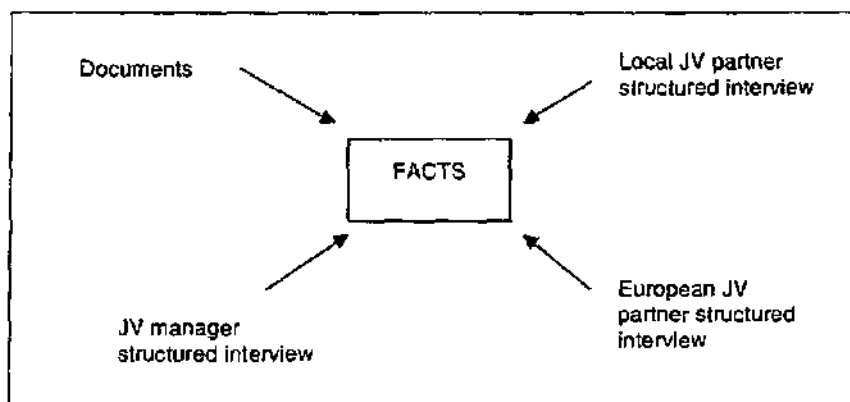
According to Yin (1994: 90-99), three principles should be followed while collecting evidence to increase the quality of a CS: Use of multiple sources of evidence. A major strength of CS data collection is the opportunity to use many different sources of evidence. It allows an investigator to develop converging lines of inquiry which is technically called a "triangulation process". Following this logic, any finding or conclusion in a CS is likely to be much more convincing and accurate, because it is based on several different corroborating sources of information. Figure 16 illustrates the process.

The main sources of evidence we used in this investigation were documents and interviews. No source of evidence was considered better than any other; we rather saw a complementarity in each piece of evidence. We tried to collect as many sources of evidence as was possible. The documents we used were: PCs' annual reports, JV's BPs, newspapers clippings and firms' information available on the

Internet. We used these documents to gain and corroborate evidence from interviews.

Interaction with key informants through interviews was our second and major source of information. We tried to have, when possible, the triple view of the JV -- including the local parent's vision, the European parent's vision and finally the JV's GM vision²⁴. The triple interrogation based on the same topics allowed us, on one hand, to obtain the point of view of each major actor in the JV. The reader should remember that this was one of our research objectives since the LDCs – DCs JV literature usually presented a one sided vision of the JV (often the foreign partner's vision). On the other hand, the triple interrogation served a triangulation purpose, since information given by an informant was confronted with information given by another one on the same topics.

Figure 16: Triangulation process



Source: Adapted from Yin, R. (1994). *CS Research: Design and Methods*. Thousand Oaks, Sage.

²⁴ In four cases only two interviews were carried out because some key informants had a suitable double vision of the JV. They had the local or the European PC vision because they worked in the PC and were involved in the JV creation process, and they also had the JV vision because they were the JV's general managers. In one case the local partner refused to give us the interview because the European partner had the exclusivity of informing the public about the JV's activities. In one case the European partner refused the interview arguing information confidentiality (Refer to appendices 4 to 11 csi).

A structured questionnaire was developed for each of the three JV actors (appendix 1). The local and European PCs' questionnaire had 47 questions; both questionnaires had the same content while the JV's general manager questionnaire was adapted to the respondent's specificity (he was not necessarily involved in the JV's creation process, he was may be recently appointed to the position, etc.). Two main sources inspired the questionnaire's inquiries. The major source was the literature review, which was used, among others, as a question finding instrument. Each section of the literature review ended pointing out the main aspects to be investigated during the empirical research (see section 2.3.1.1 *Informal phase*, page 30, for an example). On the other hand, we based several questions on a questionnaire developed by a consulting group specialized in developing strategic alliances (Alliance Management International, Ltd., www.amltd.com/, see their alliance evaluation survey). The questionnaire was then submitted to Prof. Bircher, and Prof. Kostecky whose comments were used to polish the final version. No changes were made to the questionnaire during the whole interview process.

The local parent and the JV's general manager interviews in Argentina were conducted in Spanish, while the European PCs' ones were held in English, French or Italian depending on the origin of the interviewee. Interviews lasted from a minimum of one hour to a maximum of three hours. Interview transcriptions were done on days following the interviews (See appendices 4 to 11 for interview details, particularly CSFs).

The selection of key informants was dictated by two imperatives: an individual's high degree of familiarity with and expert knowledge of the JV under study, and the individual's ability to report accurately and comprehensively given a) the strategic nature of the interviews' content and b) its focus on cross-corporate boundaries issues, such as transfers of know-how, learning or performance.

Given these requirements, choosing top executives whose understanding and fields of action pertained to their overall organizations was necessary. As informants, top managers were not only the most able to recognize and asses the relative importance of organizational changes, be they performance or strategy related, they were also the most qualified to report specialized information on strategic alliances. The firm's top executives were consequently the informants who were the most able to observe and to determine the impact of specific alliances on the rest of the organization's activities.

The second principle deals with the creation of a CS database: The CS database is about organizing and documenting the collected data. CSs often do not distinguish between the data or evidentiary base and the researchers' report (article, report or book), which impedes the database to be the subject of separate, secondary analysis, independent of any reports by the original investigator. Too often, the CS data is synonymous with the evidence presented in the CS report, and a critical reader has no recourse if he or she wants to inspect the database that led to the CS conclusions. We have tried to overcome this problem by creating a formal, presentable database in order to increase the CS reliability. The database includes interview transcriptions, companies' documents (PCs' annual reports, JV's BPs, newspapers clippings and firms' information available in Internet), CS notes, contact summary forms and document summary (Miles and Huberman, 1994: 53, 55). Nevertheless, part of the information cannot be consulted without the key informant's approval. The people that agreed to participate to the research, and therefore to have their interviews recorded, have done so with the condition of maintaining certain information confidential.

Finally, the third principle that increases the quality of a CS is the establishment of a chain of evidence. Again, the purpose is to increase the reliability of the information in a CS. The principle is to allow an external observer (the reader of the CS for example) to follow the deduction of any CS conclusions from the initial research questions. Evidence presented in the CS report should be assured by the same evidence collected in the field, no original evidence should have been lost, through carelessness or bias, and therefore fail to receive appropriate attention in establishing the "facts" of a case. The techniques that we used to establish a chain of evidence in our CS report were: 1) elaborate a formal CS database containing the evidence and the circumstances where they were collected (date, time and place of the interviews and 2) quote the CS database material whenever it was necessary, which are consistent with the specific procedures and questions contained in the CS protocol.

3.3.3.7 Criteria to judge the research design quality

Because a research design is supposed to represent a logical set of statements, we also can judge the quality of any given design according to certain logical tests. Whether one is doing CS or any other type of social science, four tests are relevant, Yin (1994: 32-38).

1. **Construct validity:** establishing correct operational measures for the concepts being studied. This test is problematic in CS research, critics towards CSs point the fact that a CS investigator fails to develop a sufficiently operational set of measures and that "subjective" judgments are used to collect the data. Three tactics are available to increase construct validity: a) The use of multiple sources of evidence, in a manner encouraging convergent lines of inquiry, and this tactic is relevant during data collection; b) establishment of a chain of evidence, also relevant during the data collection; and c) having the draft CS report reviewed by the key informants. We applied the three tactics in our CS.

2. **Internal validity:** (for explanatory or causal studies only, and not for descriptive or exploratory studies) establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships. Concern only causal or explanatory studies, where an investigator is trying to determine whether event X led to event Y. If the investigator incorrectly concludes that there is a causal relationship between X and Y without knowing that a third factor Z may actually have caused Y, the research design has failed to deal with some threat to internal validity.

The concern over internal validity, for CS research, may be extended to the broader problem of making inferences. Basically, a CS involves an inference every time an event cannot be directly observed. Thus, an investigator will infer that a particular event resulted from some earlier occurrence, based on an interview and documentary evidence collected as part of the CS. Is the inference correct? Have all the rival explanations and possibilities been considered? Is the evidence convergent? Does it appear to be airtight? A research design that has anticipated these questions has begun to deal with the overall problem of making inferences and therefore the specific problem of internal validity.

Our CS is more descriptive than explicative, nevertheless interviewing two to three persons with divergent interest (Local PC representative / foreign PC representative and JV representative) and asking them to answer to the same questions increases the validity of our conclusions. Moreover, the final document will be submitted to all the informants for publishing approval.

3. **External validity:** establishing the domain to which study's findings can be generalized. The third test deals with the problem of knowing whether a study's findings are generalizable beyond the immediate CS. The external validity problem has been a major barrier in doing

CSs. Critics typically state that the single cases offer a poor basis for generalizing. However, such critics are implicitly contrasting the situation to survey research, where a sample if selected correctly readily generalizes to a larger universe. This analogy to samples and universes is incorrect when dealing with CSs (analytical vs. statistical generalization). In CSs investigators generalize a particular set of results to some broader theory. However, the generalization is not automatic. A theory must be tested through replication of the findings in a second or even third case, where the theory has specified that the same results should occur. Once such replication has been made, the results might be accepted for a much larger number of similar cases, even though further replications have not been performed. This replication logic is the same that underlies the use of experiments (and allows scientists to generalize from one experiment to another).

4. Reliability: demonstrating that the operations of a study, such as the data collection procedures, can be repeated with the same results. The objective is to be sure that, if a later investigator followed exactly the same procedures as described by an earlier investigator and conducted the same CSs all over again, the later investigator should arrive at the same findings and conclusions. The goal of reliability is to minimize the errors and biases in a study. To accomplish this purpose the procedures followed must be well documented. We tried to fulfill this at our best by building the CS data base.

3.4 Conclusion

The research process image that I gave throughout chapter three is a very structured and rational one, whereas in practice, at least in my case, the latter was not that structured nor rational. The first steps of my research process were rather characterized by disorder, chaos and a lack of a clear objective. Structure and rationality emerged as the research foundations consolidated at later stages. At the beginning there were only two elements, a general idea of the research area (strategic alliances) and a strong determination to live an investigation adventure.

The hardest or most critical moments that I experienced during this project emerged during my first year of work when I had to write down the first ideas to build a research proposal. It was like driving a car in a highway during the night, without lights, and alone (I am not thinking

about a Belgian highway!). Sometimes I thought that I found the correct path but then I realized that I took the wrong way, and had to come back several miles. As lectures went by, my ideas about the subject changed, it was a continuous creation and destruction process. When I thought that I had succeeded delimiting the problem, new perspectives or obstacles appeared. In that moment I realized that a good image describing an area of investigation was the image of a river with many tributaries. A Ph.D. candidate has to make an expedition to discover the origin of the river and its tributaries (the different research currents) in order to gain a good vision of the whole. This stage is very important because it gives the neophyte the knowledge required to position his work among the different research streams. Deepening the understanding of the research area takes time, and requires good guidance. The support of my thesis director, as the one of various experts in this area of research, and of the doctoral program as a whole, were crucial to achieve this objective.

Once I overcame the initial difficulties, the different parts of the puzzle started reflecting a clearer image of the path to follow. From that moment on, I was able to open the methodological toolbox to look for the adequate device to solve the problem I was confronted to. The challenge here was simple: I had to find which type of research technique best corresponded to the type of problematic I was confronted to.

Having defined the research problem, the theoretical framework, and the methodology, the slope became less steep. The main difficulty resided in mastering the methodology, collecting, and processing the data. The type of tasks I had to work on became less abstract and more action oriented. The success factors of this stage were tons of patience and an obstinate attitude towards difficulties.

At this point, all the thesis elements were gathered on the table. The final task was to redact the missing chapters and to improve the existing ones. Once again, patience and obstinacy were my best companions.

This chapter's goal was to present a methodological reflection as well as a detailed description of our specific research strategy. Having attained our objectives, we continue presenting the data collected as well as its analysis.

4. ANALYSIS OF DATA

4.1 Introduction

This chapter presents and analyzes data collected through interviews in Argentina, Switzerland, France, Italy, Germany, and The Netherlands during the fall of 1998. Interviews were held in eight JVs, five in the automotive sector and three in the agribusiness sector. We remind the reader that the group of JVs in which we based the investigation does not represent the Argentine population of JVs, and that it does not respond to any statistical sampling logic but rather to the qualitative research needs that were exposed in the methodological section. Consequently, the objective of this dissertation is not to provide generalizations about European-Argentine JVs but rather to improve the understanding of their global functioning.

The logic that followed to structure the presentation and analysis of the data collected is the same one that we used in chapter two where we presented the systemic view of international JVs, which means that we are going to present and analyze data referring to: the JV formation process (from partner motivations to the signature of the JV contract), the JVGM and other staffing characteristics, the particularities of PCs' relations, some important JV management aspects (cultural differences, power structure, strategies and planning as well as organization structures), learning within the JV actors, the role of the Argentine environment in the JV development and finally performance evaluation and key success factors.

The first section treating the JV formation process is based on 14 interviews to the PCs (there are two cases where we only got information from one of the PCs: EURMON and AVEBE) and company documents. The rest of the chapter is based on all the interviews, which includes PCs' representatives and JVGMs (17 interviews). Details regarding the interviews can be found in appendices 4 to 11 particularly on CSFs.

4.2 JV formation process

The literature review described the stages and characteristics of the JV formation process. As previously mentioned, we used Büchel's (1996) formation framework to show the sequence of events that leads to the signature of a JV contract. We use once again Büchel's (1996) framework to describe the sequences and characteristics of the formation processes followed by the JVs that we studied (figure 17).

4.2.1 JV formation process: informal phase

This phase is characterized by the fact that parents take a single firm perspective. We describe, analyze and resume the most salient points at each stage, which includes the JV formation context in the automotive and agribusiness industries; stakeholders' attitude towards JV creation; foreign and local partner's motivations to form the JVs, strategic intent and finally, the PSP.

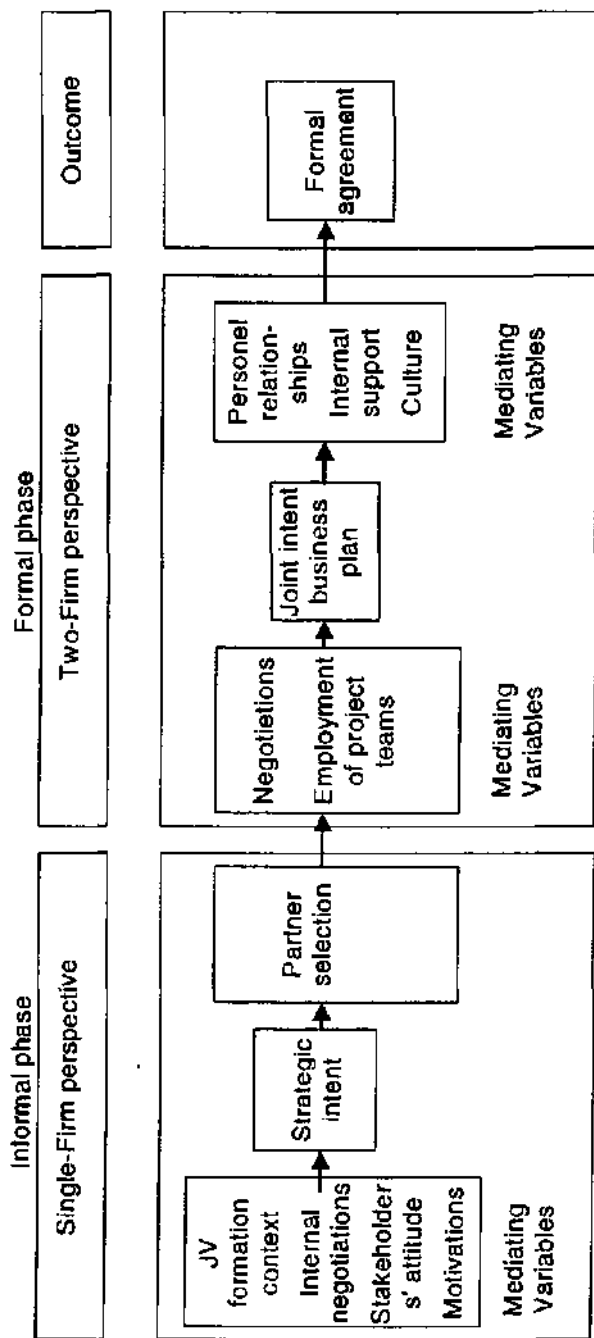
4.2.1.1 JV's formation context

The objective pursued by the first interview question (The complete questionnaire can be found in appendix 1) was to start the dialogue and to obtain information about the general situation in which the idea to form the JV was born. *How was born the idea to form a JV with an Argentine / European partner? What were the main stages of its creation? What were the main difficulties you encountered in the process?* We found a clear difference between the JV formation context in the automotive and the agribusiness industries. We begin presenting the situation in the automotive industry and then the one in the agribusiness industry.

a) The automotive industry

Recent global strategies developed by European, American, and Asian car manufacturers have had a great impact on the auto parts industry in developed and developing countries. The history of the Argentine automotive industry can be considered as a good example that illustrates the dramatic changes that the auto parts industry in an emerging market had to go through to survive. Before Argentina implemented the reforms in 1989, the national vehicle industry produced cars that could be positioned in the final phase of the product life cycle curve in DCs.

Figure 17: Joint venture's formation stage framework



Adapted from Büchel (1996: 150)

The technology, transferred to LDCs by car manufacturers was obsolete, and the vehicles produced were of poor quality compared to DC's standards. We can easily imagine the consequences of such practices on the level of development of the national industry capabilities.

The situation evolved with the implementation of free market policies around the world, and the adaptive strategies of car manufacturers that followed it. In the case of Argentina, **economic reforms, stability, and growth created new opportunities for foreign multinational firms** in the automotive sector. Besides the improvement of the internal economic conditions and its ensuing increase of demand, the size and potential of the Mercosur market reinforced the **attractiveness of investment projects**. It is under these conditions that car manufacturers **invested in the region, transferring state of the art technology** to produce modern vehicles.

The **"world car"** concept, which means that cars are manufactured and sold in different developed and developing countries at the same time characterizes the **strategy** implemented by multinational corporations in the sector. The implications of the "world car" on the auto parts industry have been considerable. It is well known that the auto parts industry activities have been more and more **integrated** into car manufacturers production processes during the last decade. The role of auto parts firms evolved from the production of simple parts under the direction of car manufacturers to a situation where they became **strategic partners** that develop complex systems, which are integrated into vehicles. Car builders have reduced the number of suppliers in the world, and have developed close commercial relations with them. Projects are not national or regional any more, they are **global**, and auto parts companies are forced to play in the global environment following their clients wherever they invest.

According to Dr. Trèves, Treymi's Vice-President, this major change has been a great challenge for auto parts firms since they have been **historically linked to their national territory and clients**, and they are in their majority **family owned SMEs**. The internationalization strategy was not always an easy process to implement and very often companies preferred to form alliances with LDCs partners to fill in the market knowledge gap and reduce the risk of investment projects.

Ing. Muhlmann, Industrial Director at Grupo RB, described the industry changes from an Argentine perspective. According to him, the market liberalization increased the number of foreign cars imported putting in serious danger the local industry and obliging it to upgrade its technology to survive. As a consequence, the local industry went through a deep reorganization process in which the strongest groups expanded by integrating vertically, buying firms that were facing difficulties. This first reorganization phase was followed by an alliance formation phase that allowed local companies to acquire up to date technology and management practices indispensable in some critical activities.

b) The agribusiness industry

There are many sectors in the agribusiness industry, each one with its own particularities. The interviews we undertook within the industry, as well as the information that we gathered in the business press, generally showed that many European firms face constraints that limit their development. These constraints exist both at a resource level (entries to be processed) and at the sales level (market saturation), and they explain partly the trend of geographic expansion that many European firms are undergoing.

The latter can be illustrated by some of the cases that we analyzed. The resource constraint problematic is well known in the fishery sector in Europe. Indeed, European seas have been overexploited and competition for fishing licenses between European Union firms and countries is a delicate issue. Pescargen's JVGM, Lic. Hugo Villar, explained that several countries are in a situation where modern fleets such as the Spanish one face over capacity. Fishery firms have developed an important technological know how and infrastructure but cannot use them optimally because of the resource constraint. On the contrary, Argentina was, and in a lesser extent continues to be a country with a lot of fish resources but lacking of modern technology and therefore of adequate boats to exploit their fishing licenses. In this context, the formation of JVs appeared as an interesting solution to solve the over capacity problem of some European companies and the lack of technology of some Argentine companies.

The second example illustrating the resource constraint problem comes from the wine sector. The difficulty in this sector is to find adequate land for growing vine.

European wine producers essentially from France, Spain, and Italy have expanded and exploited their soil throughout centuries, and nowadays it is very difficult for companies originating from these countries to increase their wine production. An additional difficulty that firms in this sector face is weather uncertainty since a few weeks of bad weather can damage most of the yearly production. Managers in these companies have to ensure sufficient and good quality grape each year. Firms of the sector found a solution to their growth problems by expanding geographically, increasing quantitatively and qualitatively their grape production, and reducing at the same time the country bad weather risk (they reduced the probability to loose their production by growing vine in different continents at the same time). Countries such as the US, Australia, South Africa, Chile etc. have been already well developed and the number of countries presenting the appropriate conditions for vine growing is limited. Different experts evaluated Argentina's potential and various provinces were judged very appropriate.

The constraint in this sector was not only a resource constraint but also a market constraint. European wine markets are in a mature phase and companies have to look to other regions to increase their sales volumes. Some emerging markets in Asia such as China or in Latin America present good opportunities. Here again, JVs offer an interesting solution to European and Argentine firms. Foreign partners can expand their activities and diversify their risks, and local firms can benefit from international distribution networks and oenological know how.

As we saw in the case presentation section, overcoming the European market constraint was also an element that motivated AVEBE to look for growth possibilities outside the old continent to ensure future profitability.

The description of the JV formation context for the automotive and food industries highlighted several reasons that explain the creation of European-Argentine JVs such as growth opportunities, client constraints, and technology needs. This list of reasons or partner motivations to form JVs will be completed by question's 3 data, which is devoted to the study of partner motivations to form JVs.

4.2.1.2 Stakeholders' attitude towards JV creation

The literature review showed the importance of this variable that determinas the basis on which the JV will develop. The success chances of the JV are highly compromised if important divergences on its creation rationale exist among stakeholders. The objective of questions two and three was to collect information on stakeholders' attitude towards the JV creation. *At the moment where the JV's project for Argentina was discussed, what was tha stakeholders' attitude towards its creation? (By stakeholders we mean: shareholders, board of directors, managers, clients, suppliers, financial institutions etc.) Was thera a general consensus about the decision or was it rather a conflictive situation? If the situation was conflictive, what were the main problems? How were these problems solved?* Answers to questions two and three were relatively short and similar in both sectors under analysis. The few differences that were brought up can be attributed to firm size rather than to firm sector origin.

The decision-making process of the 14 PCs that we studied was characterized by consensus. One of the reasons that lead to consensus was that firms involved in the JVs were mostly SMEs (excepted EUR; AVEBE, Arco Bodgas Unidas and Rieter), which implies a family ownership and management. Under these circumstances, decision-making power is concentrated in a limited number of persons favoring internal consensus. Dr. Guillaume Trèves, Treyimi's Vice-President, explained that *"...in our case, the family owns and runs the company, and since it is a small family, decision-making uses to be consensual..."*. The same attitude towards decision-making was found in Grupo RB as the following interview extract shows it: *"...Considering the middla and upper managemant levals, everybody knew that the internationalization or globalization was imminent and that wa had to figure on it in soma way, at least to laam. ...They all understood that the alliance formation strategy was the right one, and they supported the JV creation process although some of them feared for their futura in the company..."* (Ing. Muhimann, Industrial Director at Grupo RB). The other family owned SMEs that we analyzed had a similar view on the matter. Mr. Hürlimann, Senior Vice-President of Rieter Automotive Systems, explained that *"...it has been like this in all our investments abroad. We know that we have to follow our clients and we discuss about the pros and cons of each new opportunity, then we make a consensual decision"*.

There was only one case in the auto parts industry where the local partner did not agree a 100% with the JV BP. They would have preferred to find other production solutions than the ones that were adopted, nevertheless maintaining business with some important clients was the priority and they had no other choice than doing it that way. The local partner agreed with the idea of a JV, but was not convinced by the way in which the business was going to be run.

Clients represent a third stakeholders group besides owners and managers. In the auto parts sector, clients are the car terminals, and as we mentioned earlier, they were not only favorable to JV formation but they were one of the main forces pushing for their creation. There was one case where certain differences existed between the local partner general manager and a French constructor that was represented by a local firm. The differences were solved from France through Trèves that has very good relations with the French constructor. Trèves intervention contributed softening things.

The same consensual attitude prevailed in the agribusiness industry with the only difference that there was not a client pressure for alliance formation in this sector.

Internal consensus was easier to obtain in SMEs than in bigger companies for the simple reason that there are fewer persons to convince involved in the process. Decisions in family owned firms took several hours or a few days, while decisions in larger companies took several months. Wim Dathmers, Controller at AVEBE, explained that the Dutch PC took decisions at a slower pace than its local counterpart causing frustration to the Argentine partner in several occasions. Timing differences were accentuated by the legal nature of the Dutch company (cooperative with a heavy decision-making structure and process, for further details please refer to the case presentation section and to appendix 3 where the company and its structures are presented).

Another case where this type of frustration regarding decision-making rapidity was felt was in Rieter Argentina. The local partner understood very well that, because of its worldwide engagements, Rieter Switzerland had many other priorities than the Argentine JV. But still, it was not always easy to work on one side with the client's pressure to do things quickly in Argentina, and from the other side without the necessary flow of decisions coming from the Swiss headquarters.

4.2.1.3 Partners' motivations to form the JVs

The literature review showed the importance that researchers in the JV field have paid to the study of firm motivations to form this type of alliances. Questions 4's objective was to obtain an actual understanding of foreign and local motivations to form JVs and to update the body of knowledge regarding JVs between DCs and LDCs companies. *At the moment where the JV creation was discussed, what were your major motivations to form it? (Please refer to question 4 of the interview guide, to see the list of motivations that was presented to the group of respondents).* Appendices 12 to 16 present and resume the data obtained on the matter.

Information provided by questions one and four revealed that the major motivation that the Argentine companies we studied had in forming a JV was **technology acquisition**. This was the case in both the auto parts and the food industries and can be explained by the important liberalization process that the Argentine economy has undergone, resulting in an increased level of competition in the local market. Under these circumstances, state of the art technology is a critical resource for survival and it can only be obtained from technologically advanced countries.

Another important motivation for Argentine firms was financial. **Capital** is another rare resource in the region and technology upgrading projects are often costly, for example, in the auto parts industry they often required the construction of a plant, the acquisition of conveniently situated land, equipment costs, and so on. The same was true in the agribusiness industry where new plants or large fish processing boats were required. Most of the Argentine companies that we studied faced difficulties in financing the new investments and they had to rely on their partners' deeper pockets. European JV partners not only had more investment potential in terms of internal financial resources but they also had access to better market conditions than their Argentine partners.

An important motivation for Argentine firms in the agribusiness industry was **access to an international distribution network**. Local firms wanted to increase their sales volumes and they have often under exploited the export strategy. In this context, the distribution networks of foreign companies are used to channel the JV products worldwide.

This is the case for Pescargen's fish (world exports), for AVEBE's starch derivatives (exports to Latin America) and for BHA (principally to Australia, Europe and South America). The international network was not so important for firms belonging to the auto parts industry, because they operate in a regional basis (Mercosur).

Other important motivations to form JVs from the local partner perspective were common to both sectors' companies. One of them was **lowering costs** thanks to partner complementarity, which from the Argentine perspective included mainly investment costs sharing. As said before, project financing is not always an easy issue in Argentina.

Local firms also considered important to **acquire modern management practices** when forming JVs. This is explained by the fact that, before the nineties, the country business environment was characterized, among others, by economic instability (impossibility to use planning tools because of hyperinflation), protectionism (lack of marketing aggressiveness), nonprofessional management (nepotism), which retarded the adoption of modern management and marketing instruments. Alliance formation has reduced considerably the gap on this matter.

Finally, some Argentine partners in the auto parts industry considered **brand recognition** as an important motivation to form JVs. Foreign auto parts firms that accompany their clients around the world have an important trajectory behind them, and the quality of their products is well recognized around the globe. Consequently, using an established company name or brand is essential to sell products to car manufacturers.

From the foreign partner's point of view, the most important motivations to form JVs with Argentine firms were to follow an **important client** in its world strategy (auto parts industry), and access to **resources** (commodities), and **markets**.

The other major motivations were to **increase the velocity to entry the local market**, and to **lower the costs**. By forming alliances, foreign companies were able to count on already existing infrastructures, portfolios of clients, local networks of key contacts, personnel, raw materials, and so on. The benefits of this kind of support are evident; things would have been different if companies had to start the market penetration from scratch. Regarding the motivation for cost reduction, some foreign firms tried only to share the total

investment costs, while others tried also to minimize the operating costs at least during the starting period. The idea behind this strategy was to have a better knowledge of the market size and potential before investing heavily. To achieve the operation cost minimization strategy, firms used a nurturing structure, said in other words, a JV relied as much as possible on the local partner's resources be them administrative, financial, IT, marketing or productive, limiting the initial investment to the strict minimum.

Other important motivations that were mentioned by some foreign managers were the local partner's technical expertise (AVEBE and BHA benefited from complementary technical expertise) and the possibility to overcome local sector based regulations (Benteler). Argentina does not have many regulations but there are some import restrictions in the automotive industry that can raise costs considerably. Table 20 resumes the motivations that Argentine and European partners had to form their JVs.

Question five's objective was to evaluate to what extent partner's motivations had evolved over time, if they had. *Have there been any changes in your initial motivations due to the JV's development, or have the motivations remain stable? If they have changed, can you tell us how and why?* Answers to this question were short in general. Respondents noted mainly that motivations have remained rather stable over time. There exists the possibility that the question was not formulated in a satisfactory manner. May be we should have asked to rank each motivation from 1 -no importance- to 5 -very important- at the time of the JV creation, and then ask the same question for the actual period. It is also possible that the general comparison over time is hard to realize because of memory capacity. The problem is accentuated if respondents are asked to consider a long list of motivations.

Table 20: Motivations for JV formation

Partner origin Industry	Argentina	Europe
AUTO PARTS	Technology Access to capital, lower total capital investment Lower cost thanks to each partner's competitive advantage Management know-how Brand recognition	Obligation to follow a client on its internationalization process Faster entry to local market Lower costs thanks to each partner's comparative advantage Access to regional markets Local knowledge Local contact network
AGRIBUSINESS	Technology Access to capital Access to international markets Access to an international network Lower costs thanks to each partner's comparative advantage Management know-how	Access to resources (commodities) Faster entry to local market Technology Local knowledge Local contact network Lower costs thanks to each partner's comparative advantage Access to regional markets

4.2.1.4 Strategic Intent

Each PC plans its national and/or international development actions based on strategic analysis. We wanted to know if PCs developed a clear strategic intent before starting the JV PSP, or if they decided to form the JV to take advantage of a market opportunity. *At the beginning of the JV's formation stage, each partner develops individually a strategic intent. Did you develop a clear strategic intent before starting the negotiations with your partner, or did you decide to form the JV to take advantage of the opportunity the market was offering in that moment?* The answer to question 14 was straightforward. **Almost all the PCs had a clear strategic intent to form the JVs besides Norton that took advantage of a market opportunity to develop a new business.**

4.2.1.5 Partner selection process

The first reflections on the dissertation problematic captured already the importance of the PSP. The literature review confirmed the importance of the matter evidencing the determinant role that the process will have on JV development since it determines the quality and quantity of resources (financial, technological, human and so on) that will be available to the organization, as well as the type of relationship that will exist among PCs (balanced or unbalanced / close or distant etc.).

We concentrated our efforts on the study of the stages and characteristics of the PSP; the criteria used by PCs to evaluate potential partners; the number of partners that were formally evaluated; the time necessary to accomplish the process, and finally the asymmetries that exist between PCs (Questions 6 to 13).

We identified two types of PSPs among the eight cases studied. On one hand, there were some cases where **previous commercial relations existed already** between partners (the Argentine firm acted as a licensee or as an agent of the foreign firm). On the other hand, there were other cases where **no previous commercial relations existed**, and firms had to screen the environment, analyze it, and evaluate candidates to form the JVs. The following paragraphs describe the different types of PSPs presenting each case's characteristics.

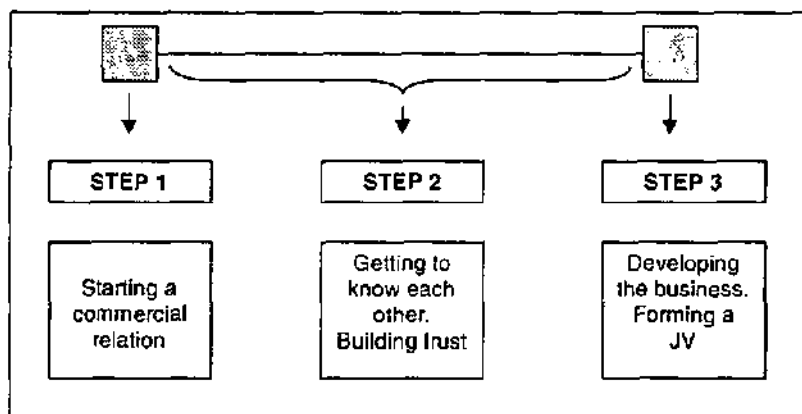
4.2.1.5.1 JVs as a result of previous commercial relations

Two firms, one in the auto parts sector and the other one in the agribusiness sector had already a commercial relation with their actual JV partner. In the auto parts sector, Rieter Automotive Systems gave a license to Caimari S.A. approximately sixteen years ago, and such an old business relationship justified the JV partner selection decision. Mr. Hürimann, Senior Vice President at Rieter Switzerland explained that *"... Working all that time together allowed us to get to know very well. We also had a lot of pressure to form the alliance and in those circumstances it was illogic to search for another partner. Besides, we would had created additional competition in the market had we formed the JV with another company..."*. Consequently, the criteria to select the JV partner were: **previous knowledge of the partner**, **rapidity to form the JV**, and finally **competition avoidance**.

The firm in the agribusiness sector is AVEBE. The Dutch company chose AZO ALLER LIMPIAR S.A. as their commercial agent since the early 90's. Both companies met in Brazil during the "Food Ingredients South America" (FISA) annual fair. Since then, the Argentine firm started to sell small quantities of starch derivatives in the local market. Some years later, following AVEBE's strategy to increase its presence in Latin America, and due to their previous relationship, both partners discussed the possibility to develop their business by forming a JV. Consequently, the main criterion to select a JV partner in this case was the **previous knowledge of the partner**.

The following figure illustrates the path that these two JVs followed in their development.

Figure 18: A progressive approach towards JV formation.



The nature of the PSP followed by these companies rendered irrelevant the study of questions 7 and 9, which respectively treated the time necessary to find a partner and the number of partners evaluated.

Regarding PC asymmetries, Rieter Argentina brought together David and Goliath. Some important features differentiating PCs are: firm size (sales, resources, production volumes, organizational structures etc.), level of industrial development, operating range (International vs. local), and time in the market. The same PC asymmetries that applied to Rieter Argentina apply to AVEBE Argentina.

4.2.1.5.2 JVs without a previous commercial relation

The second type of PSP was characterized by the absence of a previous commercial relation. **Three different situations lead to JV formation in this type of PSP.** In the first situation, the foreign company acted as the first mover. It started the partner search process, the first contacts and so on. The second situation was the inverse of the first one, which means that the local PC led the process. Finally, the third situation was characterized by the **intervention of external actors** that facilitated JV formation. In this particular case, the external actors were Italian and Argentine government institutions that organized business meetings. The following paragraphs present the details of each PSP.

4.2.1.5.2.1 The foreign parent company as the first mover

A couple of foreign companies, Benteler AG and Arco Bodgas Unidas, initiated the partner research process in order to seize the opportunities offered by the South American market.

Benteler A.G. was looking for a partner in the region to satisfy his main client's needs. In the auto parts sector the most interesting markets, in order of importance are Brazil and Argentina. Despite the fact that Argentina represents a smaller market, Benteler selected it to start its activities. The choice was justified by the fact that Ford was producing the same model in Germany and in Argentina, and Benteler was already supplying Ford with some parts in Germany. The situation was therefore favorable for Argentina. Benteler followed a **structured approach** to form the JV and to select its partner (See table 21).

Table 21: Benteler's partner selection process

1. Analysis of sales volumes of all the potential clients in Argentina;
2. Analysis of all the companies trading or producing in their business area in order to find suitable partners;
3. Investigate potential candidates;
4. Establish first contacts;
5. Organize visits to the plants in Argentina and Germany;
6. Find a common understanding;
7. Take a decision about the commitment to form the JV;
8. Work the details (ownership structure, personnel etc.)

Source: Benteler's internal documents

Benteler's JVGM, Ing. Fenes, mentioned that there are several persons working at Benteler that are responsible of alliance formation around the world. They fly to China, India or wherever it is necessary to establish a contact, gather the parts, start the relationship, set up a letter of intent and then sign the agreement. Once the contract is signed they leave to continue their work at the headquarters until another opportunity for an alliance arises.

The main criteria that Benteler used to evaluate its potential partners were:

- **Joint understanding:** Dr. Rieger, responsible of the company's globalization process since 5 years, explained that finding a joint understanding was the most important thing for them. *"There has to be a common view regarding the market penetration strategy, the client relation strategy, the production philosophy and objectives. We have to agree on how to reach a technological match... in sum we have to agree on how to run the business... Finding a partner that shares our business views is the most important criterion".*
- **Good personal relationship** is another important criterion that Benteler takes into account when forming an alliance. There has to be a good feeling among partners in order to build the JV.

Benteler evaluated between two to four partners before taking a decision. According to Dr. Rieger, Attorney at Benteler AG, a market like the Argentine one has no more than four valid potential candidates. The PSP for this JV took less than a year.

Since the initiator of the JV was the foreign partner, the role of the Argentine firm was rather passive. GRUPO RB is the biggest auto parts group in the country, and like the most beautiful woman in a party, every man wanted to dance with her. Almost all the foreign auto parts firms that invested in the country visited them, although visits had not always a real business intention. In some occasions foreign companies just wanted to get information about their activities.

GRUPO RB's decision to form the JV originates in Benteler's first visit. The German firm proposed a good business project and they accepted to participate in the investment. It is important to mention the fact that GRUPO RB's main client, one of the major terminals in the country, played an important role in the partner selection decision. Without their final approval, the contract would have never been signed.

The main criteria used by GRUPO RB to select their partner were:

- **State of the art technology;**
- **World presence with products equivalent to the ones consumed in the Argentine market:** a firm like General Motors has a world presence, but European models influence more the Argentine vehicle market than American ones. In that context it is better to have relations with European firms;
- **Production philosophy (systems approach):** at the time when the JV was formed, there were only a few firms capable of supplying complete systems to their clients. It was important for GRUPO RB to find a partner sharing the same business vision.

GRUPO RB evaluated three companies to form this JV but there was only one who developed complete systems, the others just produced parts. The process to select a partner took less than a year.

Both PCs considered the PSP as a determinant factor for the JV's success. Ing. Muhlmann explained that *"selecting correctly a partner is vital for succeeding in a JV project, the background that he has as well as the models with which he works are very important for the future business development"*.

Because each partner comes from a different country where industries have followed different histories and developments, and because PCs have also their own characteristics, several asymmetries exist among them. Benteler's size is 10 to 15 times the size of GRUPO RB in terms of sales, personnel, and production volumes. One firm is international and the other operates locally, one firm has more than 100 years of experience in the European and world markets and the other 42 years in Argentina...

It is important to remind the reader that we are using Büchel's (1996) formation framework to structure the PSP and that this model as any other model has limitations because of its complexity reduction nature. Büchel's (1996) model suggests that personal relations among JV managers are an active variable in the formal phase of the JV formation process, while the observation of this JV (and all the others) demonstrated that this variable is omnipresent since the first partners' contact. This clarification was necessary to attribute the correct importance to the "personal relations" variable. Besides all the objective criteria that partners may use to evaluate their potential associates, there is always a subjective criterion that will play a very important role. The literature describes this idea labeling it "chemistry" among partners. In this particular JV, Dr. Rieger described it as "good feeling among partners". The existence of this "chemistry" or "good feeling" in a relationship plays a crucial role at the moment of deciding with whom to work in the future and renders the initial contacts stage a very delicate one. This argument is particularly pertinent in Benteler-RB case since both companies are family owned, they both have a medium size considering international standards, they are not too hierarchic, they have a similar management style, etc. All these characteristics favored the development of close personal relations. Ing. Muhlmann explained that finding such a fit between partners is not always an easy thing, and that it is rather very rare. He explained that they have other JVs where they always discuss with people that do not have the decision-making power and where they have to solve problems or take decisions dealing with a big hierarchy and in a very impersonal way.

The second foreign company that initiated the JV formation process was Arco Bodgas Unidas, which decided to diversify its production risks and consequently started to look for viable development alternatives all over the world. The following table reflects the procedure that Arco Bodgas Unidas followed to find an Argentine partner.

Table 22: Arco Bodegas unidas' partner selection process

1. Make a country analysis in order to determine the best development potential. The analysis results pointed at Argentina;
2. Carry out a market research focusing on the potential of Argentine wines for exportation, as well as internal market characteristics;
3. First visit to the country in order to find a suitable partner: after determining the Argentine market size and characteristics, Arco Bodgas Unidas visited the biggest bodegas presenting its JV proposal.

According to Mr. Del Rincón, who worked for several years at the headquarters' marketing department, and is currently the JVGM, "Arco Bodgas Unidas works with the strict necessary personnel, there is not a person or group of persons that dedicates exclusively to international development tasks. The persons responsible for the marketing and exports division were in charge of the Argentine market analysis, and Arco Bodegas Unidas' CEO, the founder of the JV idea, traveled to Argentina to establish the first contacts and then to supervise the process. The Spanish PC's organization structure made the selection process progress at a slow pace".

The main criteria that Arco Bodgas Unidas used to evaluate their potential partners and therefore Bodega Norton were:

- ⇒ **Product quality;**
- ⇒ **Weakness of their partner's international distribution network:** this criterion was very important since the international distribution network was the main contribution that Arco Bodgas Unidas could offer;
- ⇒ **Modern technology.**

Arco Bodegas Unidas evaluated two bodegas in Argentina. The first bodega they contacted was interested in the business, they went through various stages on the negotiation process but they had some differences at the moment of concluding the negotiations. A new process was begun with Norton and ended with the creation of BHA. **The whole PSP lasted approximately two years.** In this case again, the role of the Argentine partner was rather passive. Norton found Arco Bodegas Unidas' proposal interesting and decided to develop the JV.

There are various important differences or asymmetries between PCs. The first one regards size, Norton sells for 20 to 25 million USD per year while the Spanish partner sells for 150 million USD. The Argentine firm is a private-held family owned business while the Spanish group is listed on the stock exchange.

4.2.1.5.2.2 The local parent company as the first mover

The second path followed by companies without previous commercial relations in forming their JVs was characterized by a first move from the local company, which initiated the partner research process. Local partners were motivated principally by a technology up-grade need. Three cases illustrate this situation: EURMON, TREYMI, and PESCARGEN.

During the last years, Grupo Montich has acquired a good position in the metal fuel tanks segment in Argentina, but the adoption of plastic fuel tanks by car terminals threatened its market position. Recognizing the danger, Grupo Montich started to search for potential JV partners offering them a privileged access to the local market in exchange of modern technology.

The three interviews I conducted in the local group and the JV did not reflect the use of a structured method for the PSP. The local group acted following a pragmatic and opportunistic approach, forming JVs in the different areas where they operate each time the market presented an opportunity. In this particular case, Grupo Montich contacted different foreign firms to fill its technological gap and EUR was the one who showed most interest for the project.

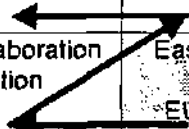
Ing. Montich, Vice-President of the JV, explained *"the principal criteria we used to evaluate our potential partners were first technology, second technology and third technology"*. Grupo Montich evaluated three partners and the whole process lasted

more than three years. We did not have the opportunity to interview the PC in Europe and therefore their point of view is not represented in this dissertation.

Some important asymmetries between PCs are size, resources, activities, and operating range. According to the JV Vice-President, Ing. Montich, parent firm asymmetries facilitated the negotiation process by diminishing the confrontation potential. According to his experience, two unequal forces that operate in different geographical areas have better chances to find an agreement than two similar forces that fight in the same arena, the following figure illustrates the latter.

Figure 19: Parent asymmetries and degree of confrontation

PC power \ PC market	Equilibrated Power	Non equilibrated Power
Same markets	Most difficult and conflictive situation to collaborate	Difficult and conflictive situation to collaborate
Different markets	Easy collaboration situation	Easiest situation to collaborate EURMON's case



The project attractiveness as well as both PCs characteristics facilitated the JV negotiation process and formation. On one hand, a market need with an interesting development potential existed, and on the other hand, the JV was inoffensive to PCs since it was a completely independent project with limited repercussions (economic success or failure). The European PC was not creating new competition in the international market by transferring the technology in question since the local partner operated and operates only in the local market and it did not have and does not have the necessary resources to expand internationally nor to grant R&D activities to keep the technology up to date. In that context, partner complementarity was very high for the Argentine project and risks to endanger the future market position of the European PC were at a minimum. Consequently, PC operating range and unbalanced power favored the JV formation.

The second JV case where the local partner initiated the PSP was TREYMI. At the same time that Argentina's automotive industry was experiencing its revolution, Mithra, the Argentine local PC, started to look for a partner to form an alliance. They did not follow a structured methodology to find a partner, and defined their partner research strategy as "punctual". In different occasions when they met potential partners, products did not correspond to what they were looking for, or the initial investment required was too high, or some foreign companies were too demanding asking for very rigid protection "clauses". Table 23 resumes Mithra's PSP.

Table 23: Mithra's partner selection process

1. "Punctual" environment scanning to identify potential partners;
2. First contact with Trèves through its Spanish subsidiary in September 1994;
3. First contact with Trèves' owners in Paris to present the JV project, and organize a first visit to Argentina;
4. In August 1995, the French company made a quantitative and qualitative feasibility study. A team of technicians went to Argentina to analyze industrial and economic aspects of the project;
5. Signature of the JV contract in November 1995.

The main criteria that Mithra used to evaluate its potential partners were:

- ⇒ **Partner technological and commercial potential:** they needed foreign input to develop some sectors where they were in a weak position;
- ⇒ **Good chemistry between JV partners:** Mr. Rocca highlighted the importance of relational aspects in their businesses, he defined the concept as follows *"...In some occasions you perceive a certain affection in the relation and in others not..."*.

Mr. Rocca explained that they had contacts with at least three partners, but they did not evaluate them in a "concrete" manner. The whole process lasted 2 ½ to 3 years.

From the French company side, there was already an interest to invest in Argentina because Peugeot and Renault, two of their main clients, had investment plans in the country. Trèves started to analyze Peugeot's and Renault's suppliers in Argentina in order to identify potential partners. Contacts with Mithra started at that period.

Mr. Guillaume Trèves, Treymi's Vice-President, explained that they usually use a mix of objective and subjective criteria when choosing a partner, the ones that applied to this JV are the following.

- **Family owned company:** Trèves is a family owned company and its owners preferred to collaborate with a similar firm. *"When you are the owner, it is easier to talk with people that have the same position than you rather than with employees of big companies that do not have the same interests and that do not have the decision-making power".* That is the reason why we chose a family owned SME;
- **Good chemistry between JV partners:** *"When you have to manage a company from a distant country, you have to rely in a strong relationship based on trust".*
- **Partnership exclusivity:** Mithra had to accept a collaboration exclusivity clause that ties it to the French company.

Trèves took 1 ½ year from the moment they decided to go to Argentina to the moment they met Mithra. There are important partner asymmetries between Trèves and Mithra regarding firm size, level of industrial development, organizational structures, turnover, production volumes, personnel etc. As Trèves Vice-Director explained, *"when we have to produce auto parts in Europe, we produce 1500 parts per day, here in Argentina we produce 50 per day..."*.

The last JV formed following the local PC first impulsion is Pescargen. An Argentine entrepreneur that had licenses to fish in the Atlantic and Pacific oceans was looking for a partner that could contribute with modern boats. He looked for a partner without following a structured approach. The principal criteria the Argentine businessman used to evaluate the potential candidates were:

- **Technology;**
- **A float with over capacity.**

From the European PC side, several firms contacted them but they did not "have a good feeling" with any of them. There were too many differences regarding the conception of the fishery business. When

they met Lic. Villar, the actual JVGM, they found a counterpart that had a similar comprehension of the business ("traditional vision of the business"), and they decided to go further in the negotiation process. The main criteria they used to choose their partner were:

- Good chemistry between JV partners;
- Fishing licensees.

The Spanish PC evaluated seven JV propositions (not only from Argentine companies).

There are basically no parent asymmetries in this JV because the Spanish partner moved to Argentina transferring most of its activities to the JV. From the Argentine side, the main business is fishery besides some real state investments. In that context, the JV is the main business for both PCs and it is more like a life long family business.

4.2.1.5.2.3 JV as a result of an external impulse

The third and last path towards JV formation was characterized by the intervention of external institutions that organized a bilateral business meeting. Under the circumstances, the Argentine and Italian Governments organized a business meeting in Italy to strengthen their economic cooperation.

The Italian and Argentine companies were already looking for the possibility to develop activities through a strategic alliance. The process to find a partner that they followed is presented in the following table.

Table 24: ASCOM-CEA's and Inmebe's partner selection process

- | |
|--|
| <ol style="list-style-type: none"> 1. Participate to the business meeting in Italy; 2. Meet and identify potential partners; 3. Organize visits to Argentina and Italy in order to analyze the partner's competitive position, and gather information about each partner's reputation; 4. Start negotiations, and share roles; 5. Sign the JV contract. |
|--|

The partner selection criteria used by the Argentine partner were:

- **Company similarity** in terms of size, and ownership structure (a small to medium family owned business was preferred);
- **Size of the initial investment** (no too important);
- **Equilibrated capital structure** (50%-50% JV);
- **Good chemistry between JV partners;**

The criteria used by the Italian partner were:

- **Previous experience** in the field;
- **Knowledge of the main client's way of doing business.**

The Argentine partner evaluated eight firms approximately, while the Italian partner evaluated just one. It took more than a year and a half to the Argentine firm to find a suitable partner, while it took one year to the Italian one.

Partner asymmetries are not so important in this JV. Both companies have relatively similar characteristics in that they are family owned, small, local, and carrying on several similar activities. The most important differences arise from industrial culture. Italian and Argentine industrial contexts are very different and technology, quality standards, the way of doing businesses etc. differ greatly.

Table 25 resumes the main aspects characterizing the PSP of the different JVs studied. We can observe that foreign PCs followed a more structured PSP than local PCs.

Partner selection criteria can be grouped into two categories, **resources** and **firm compatibility**. On the resources side, **technology and technology related aspects** are essential to local PCs while **access to raw materials and to local market knowledge** are vital to foreign PCs. This observation matches perfectly with findings on partner motivations to form JVs on section 4.2.1.3. On the firm compatibility side, we cannot observe a pattern differentiating foreign and local PCs nor PCs in the auto parts and agribusiness sectors. Nevertheless, we can note that PCs seek for as many JV stabilizing factors as possible in order to diminish failure risk. Some stabilizing factors are: establish a good relationship (chemistry), build a solid joint understanding, avoid competition through exclusivity clauses, and to try to find a "similar" partner (family owned company, similar size, similar production philosophy...). In this context, we must highlight the importance of the relationship variable that played a determinant role in almost all the PSPs studied.

Table 25: Characteristics of partner selection processes

PSP JV	Structured vs. non structured PSP	Main criteria used to evaluate the JV partner	Number of partners evaluated	Time to find a partner	Main asymmetries
Rieter	Not applied	Previous knowledge of the partner / rapidity to form the JV / Competition avoidance	Not applied	Not applied	Size (sales, resources, production volumes, organizational structures etc.) / level of industrial development / operating range (international vs. local) / activities / time in the market
AVEBE	Not applied	Previous knowledge of the partner	Not applied	Not applied	Idem + ownership struct. (Cooperative vs. family owned)
Benteler-RB	Structured	FP: Joint understanding / good relationship	2 to 4	Less than one year	Idem than Rieter
		LP: State of the art technology / similar production philosophy / world presence with similar products (European standards)	3	Less than one year	
Arco Bodgas Unidas	Structured	FP: Product quality / weakness of their partner's int. Distribution network / modern technology	2	2	Idem + ownership struct. (family owned vs. listed on the stock exchange)

PSP JV	Structured vs. non structured PSP	Main criteria used to evaluate the JV partner	Number of partners evaluated	Time to find a partner	Main asymmetries
EURMON	Non structured	LP: Technology	2	3	Size (sales, resources, production volumes, organizational structures etc.) / level of industrial development / operating range (international vs. local) / activities / time in the market
TREYMI	Non structured	FP: Ownership structure (family company) / relationship / acceptance of partnership exclusivity clauses. LP: Technology and commercial complementarity / relationship	3	1 ½ year	
PESCARGEN	Non structured	FP: Relationship / fishing licenses LP: Technology / float with over capacity	7 various		
BASE	Not applied	FP: Experience in the field / knowledge of main clients LP: Size similarity / size of the initial investment / equilibrated capital structure / relationship	1 8	1 1 ½	Level of industrial development

Regarding the number of partners evaluated and the time necessary to find a JV partner we can observe that in most cases partners evaluated more than one company, which is always recommended when forming JVs, at least to obtain a source of comparison. The number of local companies evaluated by foreign firms corresponded to what Ing. Muhlmann told us about the Argentine market, which is that there is a very small number of local companies in each sector that can be considered as excellent or good candidates to form alliances.

In the cases where foreign PCs made the first move to find a local partner, the time necessary to find a partner was shorter, corresponding to a more structured PSP. For example Benteler analyzed two to four firms in less than one year, and Tréves three in one year and a half. This was not the case for Arco Bodgas Unidas that evaluated two companies in two years to form BHA, the reason explaining such a slow pace is that Arco Bodgas Unidas lacked of internal resources to assign to JV development.

The cases where the local PC played an active role in the PSP reflect a non structured or opportunistic approach. This was the case for Grupo Montich that evaluated two partners in three years or Inmeba that evaluated three partners in two and a half years.

Finally, asymmetries between foreign and local PCs were quite important and similar in most cases except Pascargen and Base where PCs' characteristics are more alike. Nevertheless, asymmetries between PCs have affected the development of each JV in a different manner since some JVs have been able to maintain a certain power balance while others have experienced a power shift benefiting the dominant player.

Rieter Argentina was not able to support the combined effects of PC asymmetries and financial losses due to a market in crisis, which resulted in a power shift towards the Swiss partner despite both PCs' initial will.

AVEBE Argentina has managed to maintain its initial power equilibrium. Good financial results as well as a synergetic relationship are certainly the two main factors that have contributed to the JV equilibrated development.

Benteler-RB is an equilibrated JV, despite PCs' asymmetries. It is run by local staff and has a certain degree of autonomy fixed by the BP settled during the negotiation process. A board of directors formed by three foreign and two local members oversees the venture's results

two to four times per year. Asymmetries between PCs have not yet revealed as a threat for the JV. The Argentine group has developed a good knowledge of the business through its national experience and its product and JV portfolios. It also benefits of important financial resources considering the Argentine context, which makes it a very attractive JV partner. From the other side, Benteler's ambition is to satisfy its client's needs in Argentina with a shared project managed by locals. **There is a good fit between both PCs' business visions and asymmetries, and in this context, parent asymmetries have been more a complementing factor than a blocking one.**

In addition to the already mentioned PC asymmetries, BHA is affected by the fact that the Spanish PC is listed in the stock exchange while the local PC is a family owned business. The latter is important because it strongly influences the firm's business vision, and therefore its culture. Norton has marketed the concept of a "château" cellar with a specific philosophy of top quality and limited production as well as a long-term business vision. On the contrary, Arco Bodgas Unidas has an important pressure to remunerate the capital invested, having to improve its results and to grow constantly. In that context, the short-term is terribly important as described by the JV GM *"I come from a company where it is very clear that our objective is to grow, to grow, to grow and to generate constantly added value for our shareholders. We come from a company where the return on capital pressure is very strong for each of its managers because our main shareholder is listed on the Madrid stock exchange, because our main shareholder is a financial corporation. Our partner here in Argentina is a family business. Lets say that it belongs to a single person that does not have to give explanations to a board of directors nor to the stock exchange of any country... We know that we have to give a good return to our stockholders and that the short-term is terribly important."*

Consequently, both companies have a different vision regarding the way of running the wine business. They managed to agree on a particular project, BHA, but each partner follows its business logic on its other businesses. This difference among visions limits the JV evolution and development. New market opportunities, new growth paths have arisen as the JV has attained partially its initial objectives but the local partner has not manifested its will to travel towards those new horizons. Norton wants to stick to the JV initial purpose fixed in the contract while Arco Bodgas Unidas would like to broaden the JV scope. In this context the JV capital structure has changed to an 80% - 20% situation after the Spanish Group financed the new investments. The differences that exist between PCs may result in the

JV termination, which by no mean will signify a JV failure but the logical end of a business. Both PCs would have attained the initial objectives, and each of them will follow it's own development line.

Concerning Treymi, PC asymmetries manifested in deep cultural differences at the industrial and business levels that caused some of the initial problems that the JV faced. Quality standards, logistics, timing, were some notions that had a different meaning for each partner. It took some time to develop a common understanding about what the business was for the JV and how it had to be run, to develop the JV culture. These cultural differences at the industrial level were not aggravated by cultural differences at the national level. Both respondents argued that the Argentine culture was quite similar to the south European one, and besides some idiom difficulties they did not have any other problems in understanding each other. The JV GM remarked that despite the 50% - 50% JV structure, the JV was not balanced due to an imbalance of PCs' resources and that Trèves held the power and control over it, although it applied it in a democratic way.

Finally, asymmetries or differences between ASCOM CEA and Inmeba were not perceived during the JV starting period, but they are coming to surface now. Industrial traditions differ in each country favoring the use of different management methods. According to the Italian partner, financial planning is deficient in the JV, decision-making takes too long, and there is a lack of rigor in implementing strategies not because the local partner acts in bad faith but just because words or concepts do not have the same meaning for each partner. Creating a common understanding of the business is a long and time-consuming effort that demands great communication efforts. Another asymmetry that exists in the JV refers to financial capacity. One of the JV's constitutive pillars is equality, which regulates all the JV's life aspects (capital structure, decision-making, and distribution of benefits). Following this logic, a 50% - 50% JV was constituted. However, after a year and a half passed, new market opportunities emerged and additional investments were required to satisfy market needs. It was necessary to act fast, but the local partner found it rather difficult to raise the money amount required because of the difficult credit situation in Argentina (Besides the fact that it is difficult to borrow money, interest rates are much higher than in Europe). In that context an arrangement was found between both owners that consisted in integrating a third partner, an Italian industrial, in the JV. He contributed with a similar amount than the other parts and the capital

structure was split into three equal parts. **PCs' asymmetries have slowed down considerably the JV's development pace.**

The preceding sections presented and analyzed data referring to the informal phase of JV formation according to Büchel's (1996) framework, which included: JV formation context, stakeholders' attitude towards JV formation; partner motivations, strategic intent, and PSP. We continue presenting and analyzing data related to the formal phase of JV formation.

4.2.2 JV formation process: formal phase

During the informal phase JV potential partners go through a reciprocal evaluation process where PCs try to verify that their choice is the best among the other alternatives. Once they have identified the greatest candidate, and established a confidentiality agreement granting absolute discretion and exclusivity, both PCs start the negotiation process in order to find a common understanding that will then be embedded in a letter of intent. The negotiation process has to solve several important issues such as: what products and markets should be developed? What would be the JV's objectives? What would be the type of cooperation, the participation conditions? How is the JV going to be staffed? What would be the responsibilities repartition? Etc. All these aspects will settle the JV BP and will result in a memorandum of understanding. Personal relationships and culture are variables that play a determinant role during this phase, as the following sections demonstrate it.

4.2.2.1 Negotiations and business plan

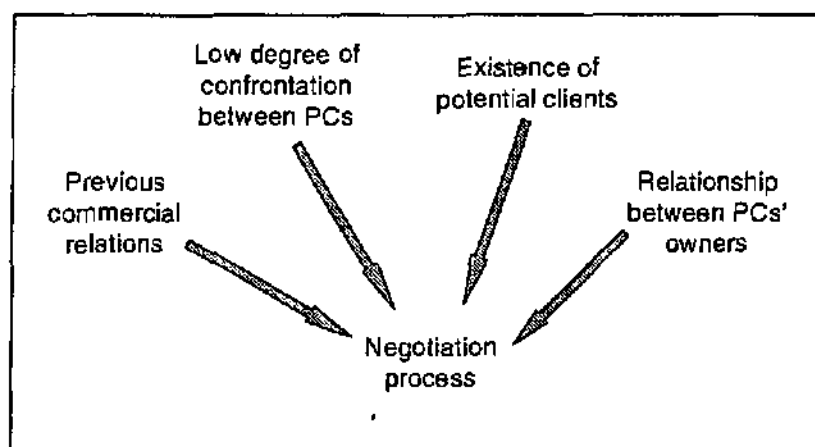
A common and global idea of what the JV should be emerged from the mutual evaluation stage during the informal phase, but there is still a long way to go till a complete agreement is found concerning the concrete manner to operate the JV. During the negotiation process, partners start to work out the business details, to define as precisely as possible the type of cooperation and size of the project; the form and conditions of the participation; legal and financial aspects; each partner's responsibilities; the JV structure (organization chart); the company size; its products and markets etc... This section describes and analyze the information gathered through questions 15 and 16, which refer to the *negotiation process characteristics in terms of partners' attitude towards problem resolution, the time needed to end the process, and the most important elements to negotiate.*

The negotiation processes had two main characteristics, **rapidity** and a **low level of conflict**. Several factors explain the smoothness of the negotiation process: first, there is a high probability that our JV "sample" had a bias since the JVs under study were effectively formed, we can assume that the negotiation processes were easier than in those cases where JVs were not formed. Though, the probability to have very conflictive and difficult negotiation processes was not the highest in our group of JVs.

Second, PCs were in a favorable situation to cooperate since they already had a positive **previous commercial relationship** (Rieter Argentina and AVEBE Argentina) or they presented a **low degree of confrontation** (refer to figure 19 page 217: Parent asymmetries and degree of confrontation) operating in different markets (Argentine companies were active at a national level and foreign companies at a world level), and presenting important power asymmetries (See table 25 page 222: Characteristics of PSPs: main asymmetries). Therefore, the ensuing degree of confrontation or competition was rather low. Additionally, potential clients existed. The reader may remember that clients were one of the main forces pushing towards JV formation particularly in the auto parts sector.

Finally, the **relationship between PCs owners** facilitated, and played a determinant role in the negotiation processes. In most cases, except those of EURMON, AVEBE and RIETER, the negotiating teams included the PCs owners. The direct relation between owners facilitated considerably the negotiation processes because whenever a disagreement or a bottleneck was reached, both owners discussed directly and resolved it quickly. AVEBE's and RIETER's negotiation processes were longer (which does not mean more conflictive) because of their respective organizational structures and size. Figure 20 resumes the different factors that contributed easing the different JV negotiation processes.

Figure 20: Factors that eased the negotiation processes



After reviewing the most important characteristics of the JVs negotiation processes, we present some of the aspects that were negotiated within the group of JVs under investigation (table 26).

Table 26 shows that **most JVs were formed with an equilibrated capital structure**. Ing. Muhlmann, Industrial Director at GRUPO RB, pointed out that this kind of situation occurs very often in the automotive sector, and mostly when the JV absorbs part of the local partners' activities. In such cases, foreigners use to start operations using a transitory local ownership majority or an equilibrated capital structure for a couple of years. After this period of time, the ownership majority usually shifts to the foreign partner. The objective of this strategy is to increase trust. It is understandable that foreigners could be reluctant to assume the control of the organization too quickly, because it carries a long and unknown past or history. Despite of the best firm evaluations one can make, there are always certain elements that are difficult to discover unless one monitors closely the company for several years. Therefore, in order to avoid any bad surprises, foreigners usually wait for two years before assuming the JV control, if they do it.

The makeup of the board of directors, which is also an element influencing the JV control, reflects the capital structure. Consequently **Boards are characterized by an equilibrated distribution of power or by a slight majority benefiting foreign PCs.**

Table 26: Key negotiation elements

Negotiation object JV	Capital structure (%)	Board of directors (members)	JVGM origin
BENTELE-RB	Local: 49% Foreign: 51%	Local: 2 Foreign *: 3	Local: no changes since the beginning
TREYMI	Local: 50% Foreign: 50%	Local: 2 Foreign: 2	Local: second since the beginning
RIETER Argentina	Local: 20% Foreign: 80%	Local: 1 Foreign: 2	Foreign: second since the beginning
EURMON	Local: 40% Foreign: 60%	Local: 1 Foreign: 2	Foreign: no changes since the beginning
BASE	Local: 50% Foreign: 50%	Local: 1 Foreign: 1	Local: New, before the JV was managed by the local partner
AVEBE Argentina	Local: 49% Foreign: 51%	Local: 2 Foreign: 2	Local: no changes since the beginning
BHA	Local: 49,9% Foreign: 50,1%	Local: 3 Foreign: 3	Foreign: no changes since the beginning
PESCARGEN	Local: 10% Foreign 1: 80% Foreign 2: 10%	Local: 1 Foreign: 2	Owners manage the JV.

*: By foreign we mean under foreign control, but not necessarily foreigners.

JVGMs and their role in the JV management are also an important negotiation element. In our 8 JV cases, **4 are managed by local GMs, three by foreign GMs and one by JV partners.** We are going to analyze more in detail the reasons behind each company strategy towards national or international JV management in the section devoted to the JVGM and staffing aspects.

Other elements referring to the negotiation process that are worth mentioning, and that were not signaled in table 26, concern **competition and exclusivity clauses.** PCs often require these types of clauses to delimit the business scope or to protect their interests. MITHRA, TREYMI's local PC, needed a technology upgrade and wanted a foreign participation in the operation's financing. The French partner asked the local PC to integrate its previous production facilities into the JV in order to avoid product competition, even though technologies incorporated in products were of a different generation. They also asked for partnership exclusivity as we mentioned previously, limiting its local partner's possibilities to form other JVs with other partners.

Another case where competition problems existed was RIETER Argentina. The local PC already had a license to produce and sell certain products in Argentina and the JV was going to introduce some of the products that were already under the local partner production in its product range. The solution that both PC found was to delimit geographically the scope of each organization's commercial activities; CAIMARI was entitled to sell in the Buenos Aires area and the JV in the Cordoba area. A similar situation took place in BASE's negotiation process where the JV's and the local partner's productions were clearly delimited to avoid internal competition.

According to Mr. Hürlimann, Senior Vice-President at Rieter Automotive Systems in Switzerland, **partners should discuss as soon as possible about as many problems as possible in order to facilitate further JV formation stages and increase JV success.** *"...Go there and discuss everything with your partner, explain what you are looking for, and try to understand how he reacts. Listen very carefully and analyze the reactions of people in your partner's firm. There has to be enthusiasm, and no doubts should remain... Never leave unclear points for later discussion. Make a long letter of intent before signing the contract, in that way the most critical points will have been discussed and agreed... The preparation phase is crucial. If you do it properly, you can approach your clients and make them*

realistic offers. Otherwise, you will face a higher risk, because you will make offers to your clients without being sure of your partner's support. Then your partner may come up with things that were not expected complicating everything because you will be already with one foot on the business and the other one outside. At that moment trouble begins..."

Mr. Del Rincón, BHA's GM, highlighted the fact that negotiation processes are fragile and therefore PCs must never forget that there can always be a rupture during this phase. Both PCs may agree with the main business idea, but they can disagree with the way of financing the investment, the ownership structure and so on.

Considering the particularities of negotiation processes between Argentine and European managers, Ing. Muhlmann, Industrial Director of GRUPO RB, explained that the most important thing an Argentine entrepreneur must do when dealing with foreigners is to understand the global, regional, and local strategy followed by the foreign PC, and try to figure out how he can fit on it. According to him, it would be absurd to imagine that the foreign partner will modify its strategy because of the local partner's needs or will. The business impact is completely different for each PC, even if the JV formed in Argentina is a 50% - 50% one, at a world level, partners are in a 99,999 vs. 0,001 situation. This is the reality in a MNE board and Argentines must never forget that.

Having presented the main aspects that Argentine and European PCs negotiated, we continue describing the role that personal relations and culture played in the process.

4.2.2.2 The role of personal relations and culture in the JV formation process

Büchel's (1996) JV formation framework did not present the ongoing role that personal relations and culture play at all stages of the JV formation process. According to the model, both variables play an active role just before the formal agreement is reached but we observed that personal relations and culture are variables that play an active role not only at a specific stage of the JV formation process but during all the JV's formation process and life cycle.

Question 24's first objective was to *determine the role played by personal relations at the moment of creating the JV*. Answers to question 18 were not surprising. **All the respondents signaled the key or determinant role that personal relations played**, confirming the literature findings on the matter.

As we already referred to, there were two types of situations characterizing the JVs that we studied. There were a couple of situations where previous commercial relations already existed (Rieter Argentina and AVEBE Argentina). In a certain way, both JVs are the result of previous good commercial and personal relationships. In the other cases both PCs met for the first time and developed their relations as they progressed in the JV formation. In these cases, the fact that almost all the PCs participating in the research are SMEs favored the development of close relations between JV key players.

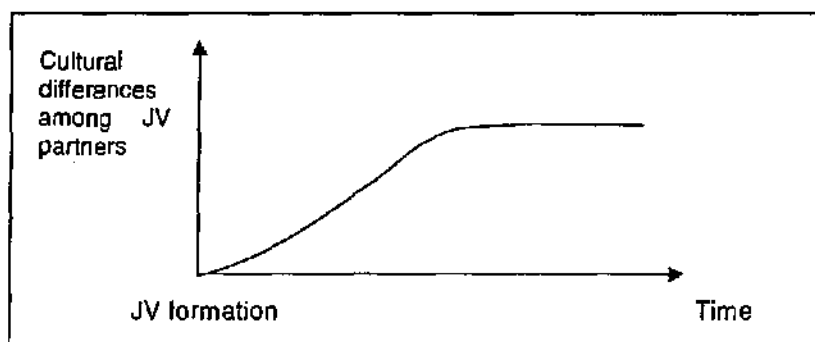
Dr. Guillaume Trèves explained that personal relations play a very specific role in SMEs. We gathered a few interviewees' reflections illustrating the latter:

- ⇒ *"Both companies are family owned, personal relations between owners facilitate problem solving and decision-making because they involve the key players"*, Mr. Ricardo Rocca, Treymi's GM;
- ⇒ *"When you are part of the JV development team, a good relation with your partner allows you to discuss openly about everything in order to find a common understanding. Daily discussions between JV initiators favor trust development, which builds the relationship"*, Dr. Rieger, Attorney at Benteler AG;
- ⇒ *"If partners do not share a "reciprocal good feeling", the probability to develop the business is very low if it exists"*, Ing. Montich, EURMON Vice-President;
- ⇒ *"In our case, there was an immediate good contact. Our personal relation goes beyond the business, we are friends first and then partners, the human relation will survive to the JV"*, Ing. Badiali, Base's Director;
- ⇒ *"The JV is not just a business, it is our life"* Mr. Villar, Pescargen's Director.

Question 24's second objective was to understand how cultural differences were perceived at the first stages of the JV formation process. *What role did cultural differences have during the JV creation process?*

The answers provided by managers that were interviewed revealed that they perceived little cultural differences at early stages of JV formation. This can be explained by two arguments. The first one was developed in the literature and argued that cultural differences are not fully evident at the first stages of JV formation but that they become more apparent as the JV starts operating (See figure 21).

Figure 21: Cultural differences and JV development



The second argument is that Argentina is a country where many Europeans emigrated and consequently many families have European ancestors, which explains the small cultural gap. Most respondents explained that it was difficult for them to describe cultural differences between their country of origin and Argentina, this was particularly true for persons originating from Latin countries in Europe. They said that it would be much easier to answer to the question if the partners were from Asian or Arab countries. We will have the occasion to develop more in detail the cultural problematic in section 4.5.1 where cultural differences at later stages of the JV life cycle will be analyzed.

Ing. Muhlmann, Industrial Director at Grupo RB, highlighted an important aspect of culture that certainly plays a crucial role in the JV formation process. According to him, Latin American countries, and consequently Argentine, are characterized by a culture of doubt while Europe is characterized by a culture of good faith. In this context Latin American businessmen have to make an effort to increase credibility vis-a-vis foreigners, they have to learn to say things as they are, even if they are no good news, instead of saying the things that they know foreigners want to hear. Correct information leads to correct action: if action is based on wrong information the results will be deceiving. Mr. Peter Arnold, GM at Rieter Argentina, supported the argument. He explained that very often people say

something and then things turn to be different (he was not referring to the JV local partner but talking in general). He said that without wanting to generalize, there is sometimes a hidden agenda in people's behavior. This type of cultural difference explains the ownership structure strategy implemented by foreigners that consists in taking control of the JV gradually in order to avoid bad surprises.

In a general manner, Dr. Rieger, Attorney at Benteler thinks that things are much easier today than twenty years ago. People usually benefit of a more international education and have more opportunities to work close to other cultures reducing cultural shocks.

Having described and analyzed the particularities of the JV formation process, we proceed presenting the data referring to the formal agreement.

4.2.3 Formation process: outcome

Questions' 27 to 31 objective was to understand the importance of establishing a contract, the characteristics a good contract should have, and finally the most important elements that partners wanted to clearly appear in the JV contract. *How important is the establishment of a JV contract for your company? What were the main aspects that you wanted to clearly appear in the contract that you signed with your partner? In your opinion, what are the characteristics of a good JV contract? Do you think that a JV contract should be extremely detailed or should it regulate only the main aspects? How has the JV's capital structure been established? (50%-50% or other structure)? Do you use the same strategy in all your JVs or is it different in each case? Has there been any change in the capital structure during the JV's life cycle? If yes, why? How is the JV's board of directors composed? (How many members of each PC)*²⁵

All the respondents considered that establishing a contract was a fundamental issue. The legal document obliges the contractual parts to be loyal to the JV spirit and to the conditions agreed during the negotiation process. Nevertheless, according to Dr. Boveri, Chief Operating Officer at Bodegas Norton, the role of the contract should be

²⁵ Part of the information gathered through these questions was used in the negotiations section, particularly the one regarding the capital structure, and the board of directors.

limited to the establishment of entry and exit conditions as well as of the scope of the business. Nevertheless, PCs sometimes look to the JV contract to solve their day-to-day difficulties. Dr. Boveri believes that when this occurs, it means that the business is over. According to him businesses work only if one forgets that there is a contract.

Respondents brought up several classical aspects that have to appear in a contract such as entry and exit conditions, capital structure, composition of the board of directors, the way in which GMs and other key positions have to be staffed, transfer prices of PCs' products and services, royalties that the JV will have to pay for the know how that it will receive, exclusivity and competition clauses end so on. In addition to these general aspects, interviewees argued that a good contract is a contract that includes as many scenarios or development possibilities as possible. Providing a framework for future possible conflicts is a time and effort-consuming task, but it facilitates considerably future problem solving. Some of the issues that negotiators or managers should try to anticipate are the following:

- As foreigners get to know and to understand the Argentine market and the Mercosur potential, the relationship between the local and the foreign firms may become a **relationship of cooperation and competition**. Foreigners with an increased experience of local markets may be tempted or influenced (by clients) to penetrate other market niches uncovered by the JV. This decision results not only from an insatiable development appetite but also because of the globalization dynamics. In fact, a foreign firm that used to produce car seats suddenly begins to develop the whole vehicle interior and therefore its cockpit, its roof etc. Ing. Muhimann explained that *"you formed a JV to produce seats in Argentina but you also develop vehicle interiors and consequently your JV partner becomes a competitor in that other area and threatens to exterminate your business in a few years"*. Moreover, the decision to enter a new business does not always come from the foreign partners but from car manufacturers that require it. All the contract clauses that give a preferential right of participation in case of new businesses originate in this problematic.
- The probability that at least one of the JV partners experiences important changes over the next five to ten years is very high, consequently managers have to anticipate the fact that a new group of professionals may be managing the company in the next years. There is also a high probability that the new generation will not have the same business understanding

and objectives as the older one. In that context, the contract must anticipate those problems (investment decisions, sale of equities, priority to buy the equities etc.) finding appropriate solutions and providing for the JV survival over its founders.

These kind of aspects have to be considered because they can generate important conflicts in the future, and there is a great advantage to count with established guidelines in case of bottlenecks.

An additional contract particularity that was mentioned by several managers was the **difficulty to translate the spirit of the JV into legal terms**. It was often a time consuming task that demanded considerable efforts to lawyers because they had to deal with both European and Argentine legislations in order to find a compatible legal solution, and to managers that had to clarify or revise their decisions according to legal constraints. Ing. Badieli, Base's Director, explained that the company status came from and went to Italy three to four times because the attorneys were not able to find an agreement. There are certain laws that exist in Italy and that do not exist in Argentina and vice-versa and it was not easy to find an adequate solution. AVEBE's controller, Mr. W. Dethmers also highlighted the difficulty that their attorneys had in working out all the contract details qualifying the process as *"very long and time consuming"*.

This section presented the characteristics of the JV formal formation process, which included the negotiation process, the role of personal relations and culture, and finally the formal agreement. The following sections focus on issues related to the JV management.

4.3 Management concept applied to JVs

This section introduces the main conclusions regarding the topics covered by the management concept (figure 6 chapter 2). Certain aspects such as the constitutive structures, and the mission statement are not covered by this section since they are the result of the JV formation framework, respectively from section 4.2.3. Formation process: outcome and section 4.2.2.1. Negotiations and BP.

4.3.1 Cultural differences

We had the opportunity to stress the importance that cultural differences play in JV management during the literature review. This

section, through data collected by questions 23 to 26 investigates the forms and effects that cultural differences took and had in our group of JVs. The questions asked to JV managers were: *A JV gathers two or more partners coming from different origins. What are the most obvious cultural differences that exist between you and your partner? (Cultural differences can have national, industrial or firm origins); What has been the role played by cultural differences in the JV management process? Have they affected the JV's functioning? Have they been source of problems or a blocking factor? At what levels do you find this cultural problems, how do they manifest, what is their origin in your opinion? What have you done to reduce this cultural differences?*

The small number of cases and the superficial²⁶ manner in which we treated the cultural theme obliges us to be very cautious with our conclusions. We are also conscious about the fact that dividing cultural differences into levels such as national, industry, and firm is arbitrary. Other ways of categorizing cultural differences exist but in any case none of them is 100% satisfactory, because categorizing is a way of setting boundaries, and values do not fit easily into rigid categories. Our objective regarding cultural differences in this dissertation was modest, it was limited to give a rough view regarding the main cultural differences that emerged in the group of JVs that we analyzed.

Our group of JVs involved seven countries, The Netherlands, Germany, Switzerland, France, Italy, Spain, and finally Argentina. We found **two more or less differentiated cultural groups among these countries**. On one hand there was what we labeled the **Latin group**, including countries characterized by a Latin origin like Italy, Spain, France, and Argentina. The latter presented common points at a religious and/or language and/or historical levels. On the other hand, there was what we named the **non-Latin countries**, The Netherlands, Germany, and Switzerland. We observed a certain cultural cleavage between Latin and non-Latin countries.

Interviews made to managers belonging to the group of Latin countries did not demonstrate the existence of important cultural differences. Mr. Gastaldi, Mr. Del Rincón, Dr. Boveri, Ing. Badiali, and Mr. Montich mentioned in several occasions that Argentina and countries such as Spain, Italy, and France shared several values

²⁶ We used the adjective "superficial" because this dissertation was not intended to make an in depth study of cultural differences but rather to grasp the general perception on the matter.

because of historical reasons, particularly the colonization period that left, among others, a religion that modeled European societies and the Spanish language. A second element that should not be neglected, according to managers interviewed, is the influence that European immigration waves had vis-à-vis the Argentine culture.

Dr. Guillaume Trèves, Ing. Muhlmann and Mr. Villar explained that there are some cultural differences between their countries but that it was very difficult to know to what extent they determine working practices. According to them it would be much easier to answer to the question if partners were from a really culturally distant country such as India or China. They know about other JVs between Argentine and Asian firms where the language problem really existed, where different ways of thinking constituted a cultural barrier impeding to find a common understanding, and to establish a dialogue based on trust.... According to them, the situation is completely different between Argentina and European countries.

The perception was not quite the same in JVs involving Latin and non-Latin companies. Dr. Rieger from Benteler AG (Germany), and Mr. Dethmers from AVEBE (Netherlands) signaled that there were important differences between their countries and Argentina. They mentioned elements such as the language, the living style, the historical frame of reference and the way of thinking. They confronted a mentality characterized by elements such as rigidity, logic, and structure to a more impulsive mentality characterized by flexibility, disorder, and versatility. The following interview extract shows how Dr. Rieger described the differences "... There are differences in the way of resolving problems, we tend to elaborate plans and to follow them strictly. Argentines tend to make short-term decisions, to decide day by day... We try to make logic decisions, therefore we first spend a lot of time reflecting, then we act and finally we compare the results obtained with those expected. Argentines (referring to their partner) tend to make decisions very spontaneously, according to their feelings, they do not follow a logic process. They can present a project and say that they want to develop it without knowing exactly how much they will have to invest, what would be the outcome, and so on... We Germans are more structured, we first reflect and then decide. I am not saying that our partner takes decisions without reflecting but they do it in a different way, a more impulsive one..."

Mr. Dethmers from AVEBE has come to similar conclusions. According to him, "...There are differences in the behavior of an Argentine or someone coming from the southern part of Europe like Spain or Italy,

and someone coming from the northern part of the continent. They are more versatile, we are more predictable...". When referring to strategy matters he noted that "... It is very difficult for them (referring to their Argentine partner) to stick to the strategy. Our partner often wants to jump on different opportunities and make money in things that were not planned. I try to explain them that they do not have a resource surplus and that they should focus on the current projects instead of dispersing efforts..." An example of a discussion that both partners had on the matter follows.

"Mr. Dethmers: ... The project seems interesting. But why do you want to start new activities that are unrelated to our current business instead of terminating the ones that we have already planned?"

"Mr. Parli: Well, because I have been analyzing the financial opportunities that the project offers and we could really make a lot of money if we seize this occasion. I think that we should do it because of X, Y, and Z..."

"Mr. D: I cannot say that the project does not offer good economic perspectives but is it part of our strategy?"

"Mr. P: No."

"Mr. D: Then, we should forget about it, we are AVEBE Argentina and our strategy is to X, Y, and Z...."

This is the reason why I say that we are more structured and less emotional".

According to Mr. Dethmers this kind of cultural differences have not blocked the JV development although they have slowed down considerably the process. "...Dealing with such differences is a time consuming process, discussions take a lot of time. We have to convince our partner that we cannot take every opportunity offered by the market. It is reasonable from an entrepreneurial perspective but that is not our objective, that is not our way of living. I have to try to convince them to set a year or a three year plan, to establish a strategy and then to follow the strategy".

Argentines also perceived cultural differences in JVs involving Latin and non-Latin countries. According to Ing. Fenes, Germans (referring to the German personnel that traveled to Argentina to support the venture activities) are very structured and have a procedure to do almost everything, while people in Argentina are more spontaneous in

problem solving. He explained that his experience with German technicians has been very positive so far, observing that they have generally been very open to discuss problems and solutions with their Argentine colleagues. Usually when they arrive to the Argentine plant they say: *"I have X and Y skills, I know how to solve X and Y type of problems but tell me how do you see the problem and how do you think we should fix it"*. A solution integrating the local insight was then found avoiding the application of a standard solution.

Nevertheless, there have been some cases where foreign technicians have not demonstrated the same degree of flexibility and have tried to impose their technical solutions. In those cases clients have been the first ones to protest because foreign solutions are usually more expensive than local ones, and not always adapted to the country's circumstances. According to Ing. Fenes it is not always easy to deal with these differences because they generate frictions. He explained that it was easier to deal with Benteler America Latina (Benteler's Spanish subsidiary) because they have experienced similar difficult times.

Ing. Fenes told us an anecdote illustrating some of the differences of mentality that exist between them and their German partner. *"Some time ago, we had to build an audit room in the plant. I already told you that we have to auto-finance our activities, and despite the fact that our two parents have resources, we cannot spend too much money in secondary matters now that times are tough. We had an idea while thinking about the different possibilities that we had to build the audit room. We remembered that we have a lot of wood in this plant because all the parts coming from Europe and Brazil are packed in wooden boxes. One day, we said to the guy that takes the wooden boxes away that we wanted to build an audit room of a certain dimension with X and Y characteristics using the wood. By doing so, we reduced the cost of the room to the cost of several days of work of a few persons."*

When the Germans saw the audit room, they took pictures of it because they wanted to show what we were able to do with so little resources. If a German manager would have been charged to do the same job, he would have first made a budget and asked for approval, then he would have asked an architect to draw the plans, then he would have structured a project and so on.... It would have taken at least six months to build the audit room and you can imagine its cost!... This is the type of differences that we are confronted to. Germans are sometimes impressed by our adaptation and creativity

capacity. The same is truth for our clients, the terminals. With little investment we manage to make interesting things. In a certain way, we apply what Japanese call the Kaizen philosophy. If we want to modify something and it costs more than 100 USD it is considered as an investment. We try to improve the processes with small changes and on a daily basis. When a German specialist visits our plant, he is amazed by the results that we obtain with the resources that we invest".

Interviewees' attitude towards cultural differences was not the same when talking about the industry or the firm levels. In this case, the Latin and non-Latin cleavage was not apparent, there was rather a **DCA – LDCs** and a **big company – small company** cleavage. Respondents explained that it was impossible to compare the European and the Argentine industrial development levels, and that each industry in each country followed a different development path giving birth to **different business practices** and **different business mentalities**. The profession is the same in each country but the way of exercising it differs a lot as the following reflections and examples illustrate it.

Ing. Muhlmann commented that there were no differences between them and their partner regarding the business concept (systems approach) but that there were very important differences at the **technological development level** and at the **market level**. Production volumes are incomparable, the investment requirements of each company activities are incomparable, the organization structures are incomparable, and so on... Dr. Trèves made similar comments adding that Argentines have not been so sensitive to quality as Europeans have.

An interesting example regarding the difference in business practices and business mentalities between European and Argentine managers comes from the **planning process**. Ing. Muhlmann explained that Argentina suffered of tremendous inflation until 1991, which impeded the use of certain management tools because they were useless in such an unstable environment. *"...Planning or establishing budgets was impossible in a country characterized by a three digit yearly inflation rate. In such an environment the time horizon for plans was limited to the following hour! We knew all the theory concerning the planning process but those principles were impossible to apply here... Now that the economy has stabilized, managers have started to discover the planning advantages".*

According to Ing. Muhlmann there are important differences between the people that had to deal with inflation and the people that are used to live in stable environments. The people that went through the various Latin American crises learnt to survive developing aggressive and non-transparent business practices which have not helped to build trust and credibility within the foreign business community. He referred once again to the **culture of doubt** and the **culture of good faith** that he mentioned previously highlighting that Argentines have improved considerably on the matter although efforts still have to be done.

Ing. Muhlmann also explained that they are more used to market fluctuations than their European partners. *"A market fluctuation of 15% in Europe can be mortal, while in Argentina it is normal, we can deal with market fluctuations of 60%. The manager that do not understand this market characteristic can make big mistakes".* Ing. Fenes gave an example that illustrates perfectly Ing. Muhlmann's argument. *"...Foreigners have to understand that the economy here follows different rules than in DCs. Stability is a normal situation in Europe. Here in Argentina you can establish business forecasts, budgets, plans and so on, and you may end by fixing a production target based on 120 000 vehicles of a given model per year. It would not be surprising that at the end of the year the production attains only 60 000 units!, which means that your sales to the terminal can drop by 50%... foreigners have trouble understanding this situation, they are just beginning to do so now".*

Following the same order of ideas, Mr. Caimari from Rieter Argentina explained the differences that existed between them and their Swiss partner. *"The problem of big companies is that they work following large scale schemes, and those schemes do not apply to the Argentine market. The Cordoba plant investment was too big, too ambitious, other alternatives with smaller investment needs existed. Knowing that the market here is very cyclical I do not think in terms of technical perfection as the Swiss do. I would rather think the following. It setting up a perfect plant will cost us 10 million USD I would rather try to build it with 5 million USD. It will not be a perfect plant, but it is better to do it that way, because even the 5 million USD plant could prove to be an unjustified investment.*

A Swiss manager will have some trouble understanding this, because in Switzerland when you say that you will produce 1000 vehicles per day, you will do it, and everything will be fine, but in Argentina things are not like that".

An additional element that Argentine businessmen inherited from the crisis period is their **appetite for short-term results**. According to Ing. Hürlimann, payback horizons are shorter for them than for their European partners. He argued that there are many experiences in Argentina that demonstrate that businessmen have to recover their investments as fast as they can because markets fluctuate a lot provoking financial losses, which is currently happening to many entrepreneurs in Argentina. Consequently, the faster one recovers ones investments the better.

Mr. Hürlimann and Mr. Gastaldi used a milieu perspective to explain that **each industry in each country has its own culture and its own formal and informal business rules and codes**, which are difficult to identify and take a long time to understand. According to them, that is one of the main reasons why a local partner is indispensable to penetrate a new market, he constitutes the key to access that unknown world.

At the firm level there are also significant differences. Each firm has its own past, its own history that crystallizes in the firm's structures, employee's behavior, employee's relationships and so on. As already mentioned, company size has been an important source of cultural differences in our group of JVs (large-scale scheme mentality vs. small-scale scheme mentality / long decision-making process vs. short decision-making process / Global company vs. local company / stock exchange listed company vs. family owned company...).

Cultural differences existed not only among different PCs but also among firms belonging to the same group. Mr. Hürlimann from Rieter Switzerland had an interesting experience that illustrates the latter. *"Our client in Italy and in Argentina is the same one, Fiat. We thought that Fiat was always Fiat in different countries but we underestimated the role of Fiat's local organization in the JV. This JV experience taught us that there are some important differences... The project was decided here in Europe between Rieter Switzerland and Fiat Turin, we therefore thought that they were our privileged interlocutors. One day we were discussing with our client in Argentina about a certain matter and we had different points of view. We were explaining them that we agreed on that matter with Fiat Turin and they answered, yes ok, but that was Fiat Turin, we are Fiat Argentina and we think things should be done this way... One should never forget that each organization has its own identity, which of course has to be respected. We had some difficulties figuring out how to find a fit between Fiat Turin directives and Fiat Argentina constraints. There are differences in the*

way of producing in Europe and in Argentina and one has to be flexible and accept the differences. The only thing that should matter at the end is the respect of quality and cost standards, then how the production is done is not so important. For this reason you should have Argentines running the operation and doing things the Argentine way".

Having described the most salient cultural differences that we found in our group of JVs, we proceed introducing other Argentine - European JV management characteristics.

4.3.2 Organizational structures

Our study of the literature showed how JVs could design and manage self-organizing properties in order to cope with evolutionary pressures and ensure their success. Lorange and Probst (1987) proposed four self-organizing properties for JVs: complexity, self-reference, autonomy and redundancy. Although we did not collect data specifically to evaluate our JV's self-organizing properties, we managed to do it for the complexity, self-reference and autonomy properties. **We found that the JVs studied had moderate adaptive properties enabling them to adjust to environmental changes.**

Regarding complexity, the context within which our JVs function indicated a **moderate degree of complexity**. In fact, the number of JV partners was limited (2 PCs in most cases), most companies were family owned (refer to section 4.2.1.2.). The number of potentially irreconcilable strategies was low since JVs included in the research were considered as isolated projects with clear objectives (refer to section 4.2.1.4.), excepting Bodega Hispano Argentinas, which reached a bottleneck after attaining its initial objectives, in fact, PCs agreed with the initial JV objectives but disagreed with the following development plans (section 4.2.2.1.). There was a low degree of integration between the various parts of the value-creating process: manufacturing, R&D, distribution, and marketing. The number of strategies carried out by our group of JVs was reduced since JV projects were relatively small. Few physical locations and few different types of organizational cultures were involved. The element that contributed the most enhancing complexity was environmental turbulence (section 4.5).

Concerning self-reference, JVs under study had the opportunity to **participate in a limited manner to the strategy and planning**

processes, and therefore to monitor their progresses increasing learning opportunities and generating adaptive feedback measures. Nevertheless PCs hold the processes control (Figure 23).

In regards to autonomy, our group of JVs presented a moderate degree of independence. We observed two major trends. On one hand there were several JVs that built completely independent organization structures since the beginning. The latter invested considerably in Argentina, buying land, setting up new plants, acquiring equipment etc. in order to operate in an independent manner vis-à-vis their local partners. On the other hand, there were some JVs that started operations using a nurturing structure, which means that they started their activities with very reduced investments, using as much as possible their local partners' infrastructure and resources. In these cases, JVs paid for products and services supplied by local PCs. They integrated the marketing, IT, finance, and other activities into the JVs progressively, as sales volumes developed. It took a few years to JVs that opted for a nurturing organization structure to start operations to gain complete independence from their local parents. However, JVs that chose the nurturing organization structure were more successful than the ones that preferred to act independently from the beginning because they generated a local market adapted fix cost structure. Instead, the other JVs made heavy investments relying on bullish market forecasts engendering high levels of fix costs that have been difficult to cover since the last Latin American markets' crash in 1998 (section 4.5.).

4.3.3 Power structure, political system, strategies, and planning

Questions' 36 to 39 objective was to collect information regarding the strategic management particularities of our group of JVs. Our main interest was to determine each partner's role in the JV. Some of the questions asked to gather the required information were the following: *How is the JV's strategic planning carried out? Which JV actor is in charge of the process? How did JV partners share the JV control? Is there a partner who has more control over strategic activities and the other over operational activities? How are key decisions taken?* We also used data collected through question 15 to construct this section.

Exchange relationships are generally characterized by a concentration of power in the hands of the entity that owns the most important resources. The mix of resources owned by the PCs that formed the JVs determined the role that each of them was going to play

in the alliances, and consequently the power that each of them was going to have. The elements related to formal power and control that we analyzed were: JV ownership structure, the role of the board of directors, and finally the role of the JVGM.

Table 26 (key negotiation elements), presented already the main factors that compose the JV formal power structure - ownership structure, the board of directors and the JVGM-. The table showed that most JVs were formed with an equilibrated ownership structure and board of directors, and that they were managed in 50% of the cases by local general managers. Table 26 described a situation that corresponded to the JVs' starting period, the actual ownership structure situation is presented in the following table.

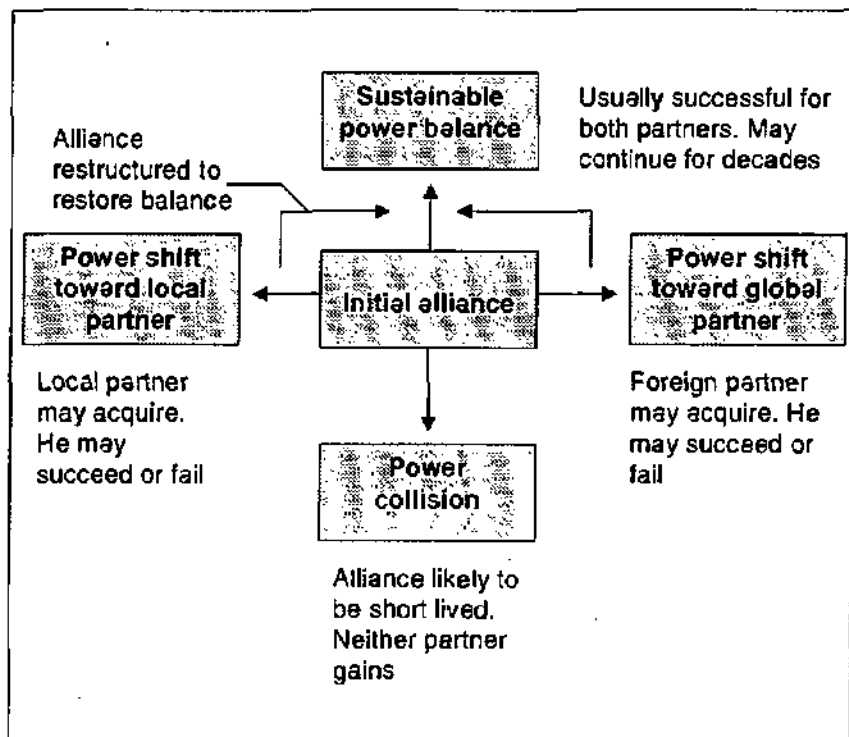
Table 27: JVs' ownership structures evolution

JV	Variation of the capital structure
BENTELER-RB	The capital increased but proportions remain the same
TREYMI	Foreigners will hold the majority in a near future
RIETER Argentina	Foreigners have 90% today
EURMON	The capital increased but proportions remain the same
BASE	A new financial partner entered the JV (1/3 for each)
AVEBE Argentina	The capital increased but proportions remain the same
BHA	Foreigners have 80% today
PESCARGEN	Foreign partner # 2 left. Foreign partner #1 has 90%

We can observe that four JVs experienced a change in their ownership structure increasing the foreign PC power, and that the other four JVs increased their capital maintaining each

partner's position. To interpret the ownership structure evolution that occurred in the JVs analyzed, we are going to use Adarker's model presented in figure 22.

Figure 22: Possible outcomes for emerging market alliances



Source: Based on Adarkar, A., A. Adil., D. Ernst and P. Vaish (1997). "Emerging market alliances: must they be win-lose?", *The McKinsey Quarterly*, 4, pp. 120-137.

According to this model, emerging market alliances tend to evolve along one of four paths. The first is that followed by **successful long-term alliances** that manage to maintain an equilibrium of forces while attaining their objectives. The second path involves a **power shift towards the global partner**, often followed by a buyout. The third path sees a **shift of power towards the emerging market partner**. Local partners do sometimes build their bargaining muscle, increase their ownership stake, buy out their global partners, or exit the alliance to form other partnerships. The fourth path is **competition between**

partnere, followed by dissolution or acquisition of the venture by one of them.

Successful long-term JVs: Several JVs that we studied fitted into this category. Benteler-RB is an equilibrated JV, where partners complement one another very well, and where both partners contribute with essential resources to the project. The JV capital has increased as the JV has developed but proportions remained the same. No ownership changes were planned at the time where interviews were conducted, and despite the difficulties faced by the MERCOSUR vehicle industry the JV is doing well.

Another JV in the automotive industry fitting into this category was Base. Besides the fact that partner asymmetries were important, both partners agreed in forming and developing an equilibrated JV. They structured their JV contract and organization guaranteeing the equilibrium of forces over the long-term.

The last JV that fitted into this category belonged to the agribusiness sector. AVEBE, the Argentine-Dutch partnership has also increased its capital to fuel its regional development but maintaining each partner's position. No signs of near future change in this matter were given during the interview.

According to Adarkar's model, the second possible path of evolution is **Power shift towards the foreign partner: This is the category where most of the cases we studied fitted in (5 JVs over 8).** Some of the JVs were formed following an unbalanced ownership structure, for example Rieter, EURMON and Pescargen. In these cases foreign partners had the JV control since the beginning through capital structure, the JV board of directors, and the JVGMS. However, the unbalance characterizing Rieter Argentina accentuated over time because of the local partner's lack of financial resources.

Treymi also belongs to this category, the JV started with a 50% - 50% ownership structure and because of the starting difficulties that the JV went through, foreigners will take control of it. **Management know-how, technical know-how, and capital** were the main resources that the local partner lacked causing the power shift.

The last JV fitting into this category is BHA, which was characterized by the fact that both PCs had a very good relationship but incompatible JV visions. On one side, there was a Spanish PC with a short-term result oriented vision that faced a high pressure for continuous growth from the stock market, and on the other side there was an Argentine

company backed by an Austrian Group that sees the wine business as a long-term business where short-term profits are not the most important objective. Both companies had a **different vision for the JV development**, which has lead to a power shift and will probably lead to JV termination. If this happens, JV termination should not be viewed as a failure, because both partners obtained what they wanted from the JV, but just as the logic end of a business.

The third and fourth paths characterized respectively by **power shift to the local partner** and by **power collision** were not present in the group of cases that we studied.

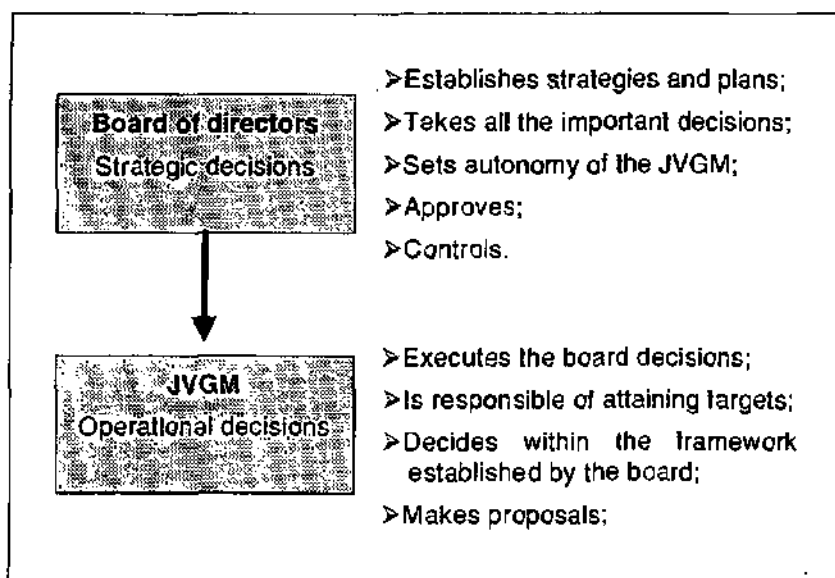
The analysis of the ownership structure helped us understand the concentration of power in the different JVs investigated. At present, we focus on two instruments, among many others, used to exercise power in a JV, the board of directors and the JVGM.

The main characteristic of JVs is shared management, and the main moment where shared management manifested in our group of JVs was during the board of directors meetings (one to four times a year, depending on the JV). It was during these meetings that negotiations took place, that PCs' representatives or owners made important or strategic decisions. The JVGM's role was fixed by the JV contract, the latter usually limited its action or autonomy to the execution of the board decisions and to the administration of the organization. Figure 23 illustrates the power and control chain that characterized our group of JVs.

The following interview extract also illustrates the power and control chain *"...We usually have two to four board meetings per year. During the meetings we compare planned targets with results, and evaluate our success. If it is necessary we take corrective measures and transmit them to the JVGM for execution. ...The GM can take some personnel decisions, he has a certain degree of freedom. The JV contract fixes his responsibilities, and his decision limits or margins. He can do anything within the BP once it is approved by the board. He can do any investment, he can sell, buy or whatever... but if there is something that goes beyond the boundaries fixed by the BP, for example if he has to invest in a machine that costs more than the investment limit we have fixed, he has to consult the board. There are some other decisions that require the board consultation..."* (Dr. Rieger, Benteler AG).

This power and control chain (See figure 23) was followed by all the JVs that we studied except Base and Pescargen that were managed or controlled by both PCs' owners (Base appointed recently a GM and Pescargen do not have this figure in its organization).

Figure 23: Board of directors' and GM's rolee



This section described how roles were divided within the JVs studied, or in other words, how formal political systems were set up during the JV formation phase and how they evolved. The coming section complements this one in the sense that it analyzes issues related to the informal political system.

4.3.3.1 Relations between parent companies

Section 4.2.2.2. already highlighted the importance that relations among PCs had at initial JV formation stages. Chemistry between key players, as well as respect, esteem, trust etc. developed since PCs met. This section goes beyond the formation process and studies PCs' relations during different situations and periods of the JV life cycle. For that purpose, we used data collected through questions 17, 19, 20, 21, and 22 which dealt with *the evaluation of the business relation, the role played by personal relations in periods of crisis, key relations in the JVs, and finally the most critical stages in the JV development process.*

Appendices 17 to 21 as well as table 28 present and resume the data obtained in regard to the business relation evaluation. Table 28 shows that most answers converged to positions 1 and 2, which means that managers generally agreed with the evaluation items that we submitted to them. Interviewees from foreign and local PCs considered that gains from the alliance were mutual, and that the relationship they maintain with their partners was based on collaboration rather than in mere exchange. In the large majority of cases, PCs considered that the value of the alliance was apparent to their customers, and that it offered a competitive advantage in the market where they operate. The strong complementarity that we found during PCs motivation analysis and during the JV formation context is confirmed in this section where most respondents agreed that the driving force of the companies were complementary.

We also found a general agreement regarding the balance of operations, risks, and rewards. However, two managers interviewed made some interesting remarks on the matter. Ing. Muhlmann from Grupo RB explained that although the JV is a 50% - 50% alliance where good and bad times are shared, the impact of the JV performance affects in a very different way each PC. The latter is particularly true from a financial point of view. According to Ing. Muhlmann, Grupo RB faces a higher financial risk than Bantaler because a one million USD loss has a greater impact in a smaller company than in a bigger one.

Following the same logic, the German partner considered that they face a higher client risk than their Argentine counterpart. If the JV does not respect international standards on technical, quality, or just-in-time matters, the maximum sanction that the Argentine company can face is the loss of the client in Argentina, while the risk for the foreign company is to compromise their whole business around the world. In that context, both partners considered that there was a balance concerning the matter but that it was a relative balance.

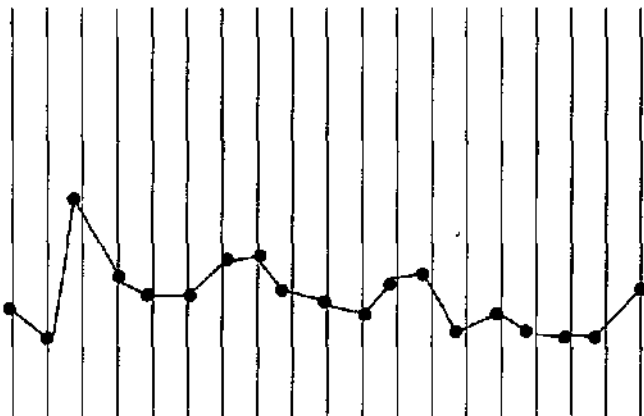
There was also a general agreement between PCs regarding the fact that they usually explored new opportunities together, alliance objectives were clearly defined, there was an excellent clarity of purpose, and the roles of each partner were clearly understood. Although two of foreign managers, Mr. Delhmers from AVEBE, and Mr. Gastaldi from ASCOM-CEA, remarked that the clarity of purpose was sometimes apparent because foreign and local managers interpreted differently the strategies provoking frictions in certain occasions (refer to section 4.3.1. Cultural differences).

Table 28: Evaluating the relationship between PCa

(1 = completely agree, 5 = completely disagree)

- Our gains from the alliance are mutual
- Our relationship is based on collaboration
- Our relationship is based on mere exchange
- The value of the alliance is apparent to our customer
- This alliance offers a competitive advantage
- The driving forces of the companies are complementary
- The operations, risks and rewards are balanced
- As alliance partners we always explore new opportunities together
- The objectives of the alliance are clearly defined
- There is an excellent clarity of purpose
- The roles of each partner are clearly understood
- The alliance has a shared vision
- We develop shared goals that are measurable
- Top executives from both companies support the goals of the alliance
- We have excellent channels of communications at all levels
- Key issues are raised early and acted promptly
- We have a high degree of trust
- There is continuity in the players
- There is commitment and support at all levels

1 2 3 4 5



Most PCs participating in this investigation considered that there was a shared vision in their alliance, that top executives supported the alliance goals and that there were excellent channels of communication at all levels. Regarding the rapidity on which key issues were raised and acted on promptly, Ing. Muhlmann from Grupo RB explained that here again things were relative. He agreed in general with the statement but arguing that one should never forget that a 100% Argentine problem is a 1% European problem, and therefore it is impossible to pretend that top executives in Germany will react with the same rapidity than Argentines. *"It is impossible to gather Benteler's board once a month because they have too many things to look after around the globe"*. Nevertheless, the item evaluated applied in a reasonable way.

Everybody agreed on the existence of a high degree of trust between JV's partners, on the continuity of players involved in the JVs and in the commitment and support at all levels. Although regarding the latter, Mr. Dethmers from AVEBE explained that the bigger an organization is, the more difficult it becomes to obtain the commitment and support of people that are not directly concerned by the JV. He gave the example of a starch byproduct used for bread production that is produced by AVEBE in the Netherlands. The product is of better quality than the one found in the Argentine market and therefore it is imported, approximately three thousand tons per year. The problem is that the price that AVEBE can get for the product is a little bit higher in Europe than in Argentina and it is not always easy to convince the people from AVEBE Netherlands to sell the product to Argentina under those circumstances. *"Internal commitment and support are not always what we would like it to be, things may seem a little bit contradictory for some persons in the Netherlands but we see things in a long-term perspective, we are trying to develop activities for the future not trying to increase our short-term sales revenues..."*.

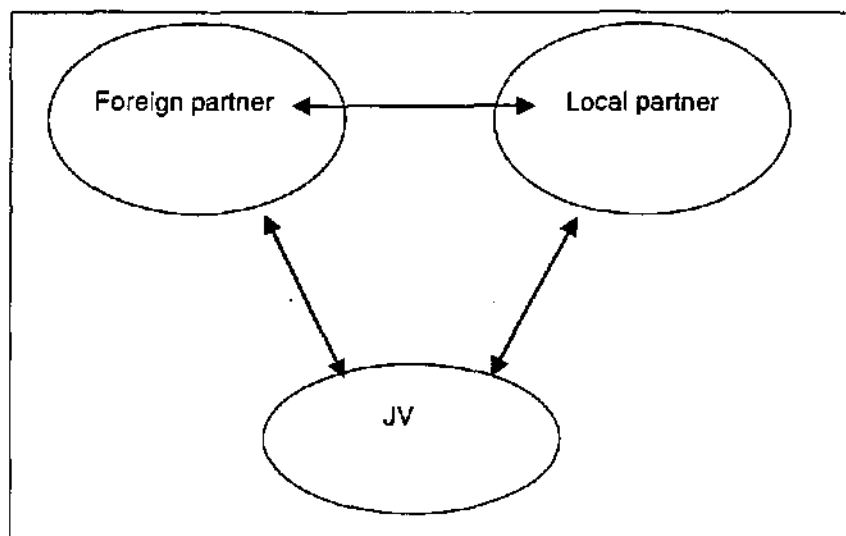
Mr. Hürlmann from Rieter Switzerland thinks that financial commitment was not always easy to obtain from their Argentine partner, not because they acted in bad faith but because they were not able to participate more actively.

There is no doubt that personal relationships among key executives involved in the JVs played a determinant role in the overcoming of critical situations. When problems took important proportions and middle and high level managers were not able to solve them, PCs' owners in the case of SMEs or JV responsables in the case

of bigger companies discussed directly, and reached an agreement. **Trust** was a crucial element that determined the type and quality of the relationship between partners. It allowed open, frank and direct discussions that were very favorable to problem solving.

The analysis of the information gathered during the interviews showed that there were **two main types of structures characterizing relations within our group of JVs**. On one hand we found the **classic relationship structure** integrating the foreign PC, the local PC and the JV. Figure 24 represents this relationship structure. Obviously, the intensity of the relationships within the triangle was not the same for each JV, there were some cases where there was a stronger relation between the local PC and the JV, and other where there was a stronger relation between PCs, and so on.

Figure 24: Classic JV relations structure



Five cases over eight studied presented the above illustrated relationship structure, Rieter Argentina, Base, AVEBE Argentina, BHA and finally Pescargen.

Rieter Argentina was characterized by a close relationship between Mr. Calmari and the ex JVGM who is currently managing Rieter's subsidiary in Brazil. The JV has evolved since its first years and the local partner's contribution has decreased considerably, although they still play an important consulting role.

The relationship in Argentina is now maintained by the new JVGM, Mr. Arnold, and Mr. Caimari but it is not as intense as it used to be with the other JVGM. The relationship between PCs is rather distant; they meet once a year when the board gathers. The main relationship is between the JV and the foreign PC.

BASE was characterized by a strong link between the two PCs' owners, Mr. Gestaldi and Mr. Badiali. They took all the important decisions regarding the JV's future. The JVGM was new in its function and carried out an operational and administrative role.

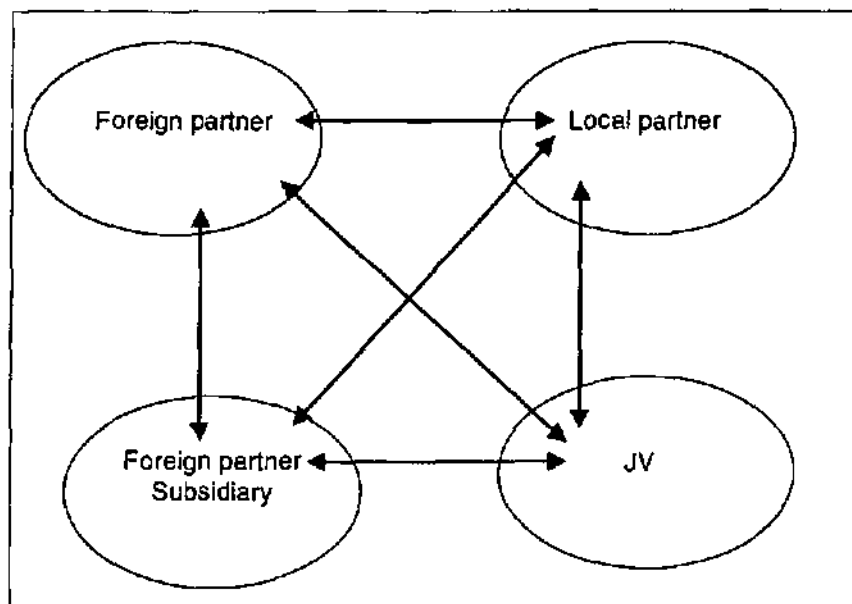
Regarding AVEBE Argentina, there were two persons that were responsible of the venture's development, Mr. Dethmers from AVEBE Netherlands and Mr. Paris, one of the Argentine founders of AZO-ALLER-LIMPIAR. The JV benefited of a great autonomy relying on this solid relationship, the role of the Dutch responsible was rather a control role.

We found two levels of relationships within BHA. The first one concerned the JV founders, Mr. Redondo from the Spanish PC and Dr. Boveri, JVGM. They maintained the most privileged relationship since the JV foundation. The second level was more operational, relations were maintained by Dr. Boveri and Mr. Del Rincón regarding the JV management in Argentina, and between Mr. Del Rincón and the Spanish PC regarding the JV development, considering that the local partner has reduced its participation in the JV.

Finally, Pescargen represented a particular case. It can be considered more like a long term family business that constitutes the main activity of both PCs than a separate project of each PC. The PCs' owners maintain a very close relationship and they manage together the JV. The figure of the JVGM does not exist in this JV.

The second type of relations structure that we found is more complex than the traditional one since it integrated an additional player, the foreign PC subsidiary. The latter played or plays an active role in the JV functioning. Figure 25 represents this structure. Three cases over eight studied presented this type of relationship structure, Benteler-RB, Treymi and finally EURMON.

Figure 25: More complex JV relations structure



The intervention of Mr. Benteler in the JV affairs was relatively rare. Most problems were usually solved by Dr. Rieger (foreign PC) and Mr. Beccanelli (Local PC). The JV operated in a relatively autonomous way and its GM reported to the board two to four times per year. The JV was closely monitored by Benteler's Spanish subsidiary, which contributed among others with training support in different technical areas.

Treymi was characterized by three relationship levels. The first and most important relationship was maintained between Mr. Rocca (Local PC) and Dr. G. Trèves (Foreign PC). The second level where close relationships played an important role was between the Spanish team that followed the JV, particularly the subsidiary director, and Mr. Rocca. At the third level there was a Spanish manager that was strongly involved in the JV management and that followed its development closely.

Finally, the main relations in EURMON were between the foreign PC's Argentine subsidiary and the JV, and particularly between Ing. Montich who represented the local interests and the CEO of the foreign PC subsidiary. There was also a strong relation between the JVGM and Ing. Montich.

The final aspect that is treated in this section presents a great interest because it deals with the most critical stages that JVs faced during their development processes. We see which were the most critical situations for each PC in each JV and how these critical situations were solved.

Benteler AG, the German PC engaged in Benteler-RB faced three major difficulties in its JV. Dr. Rieger explained that one of the most not critical but difficult stages in Benteler-RB's development process was to find a common understanding regarding the JV, a common vision about the business. *"It was very important to find out if we were talking the same language, if we had similar views regarding the market situation, the market penetration strategy, the way the business should be ran etc"*. Developing a close relationship and therefore finding who the partner really was helped a great deal in this process.

The second delicate situation according to the foreign partner was the evaluation of each partner's contribution to the JV or in other words quantifying the assets brought by each PC to the JV. Finding a common understanding on this matter was not a simple task and it required the expertise and neutrality of a group of external auditors.

Finally, Benteler faced some difficulties in setting production and turnover targets. Subcontractors in the automotive sector usually base their targets in terminal's production and sales forecasts, but experience has shown them that such forecasts must be used and interpreted very carefully. The JV project team analyzed their client's forecasts, when they added the figures of Volkswagen, General Motors, Ford, Renault, Peugeot, and FIAT, they found an estimated production of 1 000 000 vehicles. When they confronted the forecasts to the reality of the Argentine market they were surprised by the constructors' optimism since the Argentine market absorbed 400000 vehicles per year in its best days! Basing the JV's targets in such optimistic figures seemed rather risky. In that context, JV partners gathered and discussed in order to identify the most likely scenario and apparently it was not an easy task to find a common view on the matter. On one hand the local partner considered to have a better knowledge of the Argentine market, and on the other hand the foreign partner considered having a better knowledge of their clients' forecasts precision around the world. Benteler had previous experiences in Korea, China, India etc. where they learnt that they cannot rely completely on their client's forecasts, for example there is a region in China where terminals reached their forecasts 7 years after the expected date! Benteler managed to convince its partner to adopt the

prudence principle, which has proved to be the adequate one. FIAT set a plant in Cordoba with a 200 000 vehicles per year capacity, and they only produced 60 000 (approximately 1/4) in 1999.

According to Grupo RB, the Argentine partner, the most critical stage in the JV development has been linked to investment decisions. PCs priorities or views often differ, and the Argentine PC would have preferred to invest more heavily in several occasions. The actual automotive sector crisis in the region has proved that a prudent investment strategy has been the adequate one, and the Argentine partner has learnt that it is easier to increase an investment than the contrary.

Treymi, the French-Argentine JV, was confronted to another type of difficulty. It is interesting to see that this is the only JV where both PCs mentioned the same situation as being the most critical stage in their development process. The stage in question was the JV launching period, or rather its first 18 months of life when quality standards were not under control generating high costs and consequently losses during more than one and a half year. According to Dr. Trèves those problems are a classic in DCs-LDCs JVs, and they worked very hard to reverse the situation, increasing training, foreign managers presence in Argentina, communication as well as changing the JVGM.

In regard to Rieter Argentina, the most difficult situation that the Swiss PC had to face and that almost led to a bottleneck was Caimari's role in the JV financing. Initially, the Argentine partner was supposed to finance 80% of the JV but he ended contributing with only 15% of the JV. The Swiss partner had to increase its participation in order to honor its commitment with its main client. Rieter is not the only JV that has faced financing problems, this kind of difficulties are very current in the Argentine environment where local companies lack of sufficient internal resources and where access to external resources present higher barriers than in developed economies.

For the Argentine partner, the most critical situation in the JV life was its formation stage characterized by its partner slow decision-making process. Time constraint was omnipresent during the whole JV starting period, production had to be ready at the right time, with the right quality etc. and decisions were not always taken as fast as the local partner might have wished.

Mr. Caimari had to start important discussions with constructors without having a clear vision of what was happening at Rieter's Winterthur offices, and therefore without an adequate support.

ASCOM CEA, Base's foreign PC encountered two major critical situations in the JV development process. **The first difficulty originated in its local partner lack of financial resources**, which has slowed down considerably the JV development pace impeding the venture to seize market opportunities and to integrate new activities. As the reader may remember, the JV was formed following an equality principle, which means that everything had to be on a 50%-50% base. A solution that was found to increase the JV capital in order to make new investments without infringing the equality principle was to integrate a new investor obtaining a new capital structure (1/3, 1/3, 1/3).

The other difficulty to which the foreign partner was confronted originated in **cultural differences**. Such differences were not apparent at early stages of JV formation, however they surfaced later on. Industrial traditions differ in each country favoring the use of different management methods. According to the Italian partner, financial planning is deficient, decision-making takes too long, and there is a lack of rigor in implementing strategies not because the local partner is in bad faith but just because words or concepts do not have the same meaning for each partner. Creating a common understanding of the business is a long and time-consuming effort that demands great communication efforts.

From the Argentine partner point of view, the most critical situation has been and still is **related to financial aspects**.

In the case of EURMON, Ing. Montich explained that their major difficulty was related to **launching period problems**. Quality and technical programs had to be developed and applied and fine tuning the whole operation was a delicate operation.

BHA's PCs have been confronted to a **JV development crisis**. The main problem they had to face was the following: what happens once the JV partners have attained their initial objectives and new development alternatives arise? Expanding the venture activities is not a problem if both PCs share the same development vision but if PCs do not find a common understanding on the matter, the situation becomes problematic. BHA is currently facing this dilemma, the boundaries that PCs fixed initially to delimit the venture activities have become too narrow, and the JV needs space and oxygen to grow. The

solution to the problem in this case seems to be a Spanish take over and the new 80%-20% capital structure could be the first step.

The difficulties that AVEBE had to overcome do not differ from the ones that we had discussed until now. On one hand, the Dutch partner had to deal with **cultural differences** consecrating great efforts in order to teach to its partner the rigor required to set a strategy and to apply it with a long-term vision. On the other hand, the local partner had to overcome its frustration resulting from a **long decision-making process** characterizing its business ally organization.

Finally, Pescargen went through a critical situation when the company **lost its competitive advantage** following the Spanish and Italian currency devaluation in 1993. In fact, 70% of Pescargen's sales are directed to the European market where Spain and Italy are major clients. The fish market situation stabilized after several months and fish stocks started diminishing.

The relation that PCs have built since their first contacts and through the years helped the JVs overcoming all the difficulties they went through strengthening in its turn the relationship. Companies involved in the JVs had to make continuous efforts to understand their partner's situation and support them in their efforts to strengthen their weaknesses. Several respondents made a spontaneous analogy between the foreign and local PCs' relationship and marriage. Mr. Fenes explained that selecting a JV partner is like looking for a wife or a husband, the woman searches for the best man and the man looks for the best woman. Ing. Muhlmann, Mr. Del Rincón, and Mr. Montich noted that JVs as all forms of unions or as marriages go through ups and downs and that those conflicts are inevitable. For Mr. Dethmers, JVs have the same problems as marriages *"...you have to do everything together, nobody has to act alone, and it takes time to learn the culture and the background of the other..."*

4.3.4 Individual and group behavior

Questions 32 to 35 gathered information concerning human resources aspects. We were interested particularly in the JVGM PC origin, the characteristics that he should have to succeed in his role, the proportion of foreign personnel working in the JVs, and finally the key positions that should be staffed with foreigners. *From which company is the JVGM coming from? In your opinion, what are the characteristics*

that a good JVGM should have to maximize its chances of succeeding in the management of an Argentine - European JV? What is the proportion of foreign executives working in the JV? In your opinion, which are the positions that foreign executives should have in the JV?

Table 26 indicated that the proportion of foreign and Argentine general managers was equilibrated in our group of JVs. There were 4 local GMs, 3 foreign ones and one JV was managed by both PCs.

Ing. Muhlmann, Industrial Director at Grupo RB, explained that firms that form JVs in the auto parts sector usually contract local JVGMs with a good track record because foreign managers lack of local knowledge. Francesco Gastaldi, GM at ASCOM CEA defined local knowledge as the knowledge of local customs, local work methods, local laws, local people, local standards, and so on. Dr. Rieger, Attorney at Benteler, supported Ing. Muhlmann's statement explaining that Benteler's principle is to run their businesses through local JVGMs or CEOs or Presidents. They usually send personnel from Germany or another subsidiary but only to give momentary technical support.

Contracting local JVGMs is not the unique strategy, some of the JVs that we studied hired a foreign GM, for example Rieter and EURMON in the auto parts sector, and BHA in the agribusiness sector. Both cases in the auto parts sector reflect a current strategy implemented by foreign PCs that consists in naming a temporary foreign GM to follow up the delicate starting period, assuring quality standards and fine tuning the operation. Mr. Hürlimann, Senior Vice-President at Rieter Automotive Systems in Switzerland, explained that "so far the origin of the JVGM has been Swiss. Our strategy was to name somebody from the PC to institute Rieter's way of doing business, our philosophy if you prefer as well as to assure a good product with a good quality and a good price. The situation has evolved, and we are planning to train an Argentine in order to maintain Rieter's spirit and to replace the Swiss JVGM. At that moment the JV will be operating with a 100% of local personnel". EURMON's strategy is very similar to Rieter's one, they have also planned to function with 100% of local personnel in the near future.

The situation is different at BHA in the agribusiness sector. The JV has a clear commercial orientation and, because of its marketing-oriented mission, and of the commercial role played by the Spanish PC, it is important to have a marketing specialist from the PC managing the JV.

Besides the fact that it is very difficult for a foreigner to manage in an unknown environment, there is also a financial argument that justifies the employment of local JVGMs. Ing. Muhlmann explained that it is very expensive to bring expatriates to Argentina because they tend to set very high conditions to accept to move to the country. The cost / benefit relation, in relation with the operation's turnover is not favorable for expatriates. According to him, *"...If you contract super-managers, they will firstly not be able to use all their potential in the local market, because their theories are not adapted to this reality. I will tell you an anecdote that illustrates perfectly this purpose. In terms of cost / benefit, there are things that applied to big markets are great solutions but applied to small markets are great failures. There was a discussion in a JV involving an American PC, where 12 persons around the world participated. The discussion turned around a matter of a dollar. The cost of the whole discussion was the equivalent of several years of production in Argentina. A dollar per part is a problem that justifies the travel of 15 persons in the US but here in Argentina, a dollar per part does not justify more than some phone calls...."*

Secondly the decision will be extremely expensive considering the size of the local operation. What foreign PCs tend to do is to send middle managers to control the operation or to send number twos, which financially are more adapted to the size of Argentine operations. Remember that we are talking about a 500 000 vehicle per year market, where 26 models are produced by 11 terminals. These constraints leave little room for economies of scale, and the production level is too small to cover super-manager costs. The cost argument is not valid only for JVs but also for M&As, one has to be extremely careful with the management structure one develops, it has to be supported by the operation. There is no doubt that super-managers will allow you to make more money, but if that money goes to support their costs, it is not worth doing it". Dr. Guillaume Trèves as well as Mr. Gastaldi supported the financial constraint argumentation.

Table 26 also indicated a **certain stability of JVGMs**. There were only two cases where GMs were changed, Rieter and Treyimi. The change in Rieter was due to the development of another operation in Brazil requiring the experience of the person in charge of the Argentine JV. The change in Treyimi was due to important starting difficulties, the JV responsible was not able to handle all the initial problems and pressure, and he had to be replaced by a more adapted person.

Regarding the main characteristics that a JVGM should have to succeed in Argentina, the most frequently mentioned characteristics were:

- **Strong communication skills** in order to succeed in reporting to both PCs;
- **Mediator and diplomatic skills** to succeed in overcoming contradictory stakeholder demands and representing both PCs interests even if one of the parents is in a minority position;
- **Multicultural skills** to deal with cultural differences that may exist between partners;
- **Good qualifications** to reach the objectives and to keep clients satisfied. Clients in Argentina are the same clients that in the rest of the world and if they are not satisfied in Argentina, future contracts in other countries are compromised;
- **Very good knowledge of the local socioeconomic context;**
- **Support pressure;**
- **Tolerate ambiguity;**
- **Be reliable and inspire trust.**

According to Dr. Guillaume Trèves, the major difficulty that a JVGM has to face is that he has to represent two wills. He must understand very well what each partner wants and he has to develop a kind of neutrality in the application of both partners' wills. He must equilibrate and must establish a trustful relationship with both PCs.

Ing. Jaime Fenes, Benteler-RB's GM, described to us a situation that he lived recently illustrating the complexity that JVGMs sometimes have to deal with. A new car was starting to be produced in Europe in November 1998 and it was supposed to be marketed in Argentina by the year 2000. The opportunity to supply the terminal was there and the JV partners had to decide on the strategy to deal with the project. Two contradictory points of view emerged, on one hand, the Argentine partner wanted to integrate the whole auto parts production processes involved by the project into the JV. This alternative required heavy investments, and was supported by the terminal because of the positive effects following the proximity of production facilities. On the other hand, the foreign partner was already producing the auto parts in Europe and in the United States with excess of capacity. Being the JVGM, Ing. Fenes was not opposed to the local production of auto parts since it implied new technology, new equipment... in other words the development of the Argentine operation. *"But the most desired*

solution is not always the most rational one or the most economic one".

At that point discussions begun but the best solution was evident, the European partner was producing the parts in Europe and in the US, machines were working under capacity, and it was hard to argue against the import solution. *"The situation shows that you have to be flexible and that you do not have to favor any of the PCs. You have to take the right decision for the JV...The JVGM role is a role of a moderator, and believe me, it is not always easy to satisfy the local partner demands, the foreign partner demands and the client demands".*

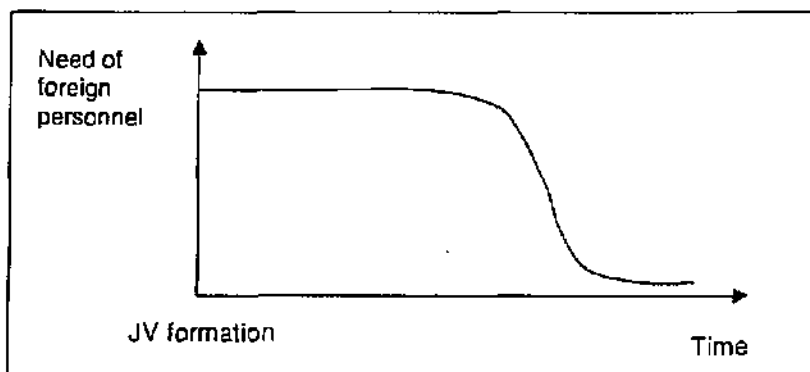
Ing. Montich, Vice-President at EURMON shared Ing. Fenes view. According to him, the JVGM has to defend the JV interests and not the PCs' interests. Very often the PCs supply the JV and no preferences should be made. A good JVGM is the one that defends the JV interests before all the other ones.

The remaining aspects to be studied under this section refer to the proportion of foreigners working in the JVs and the key positions they hold. **A clear majority of JVs employ a very limited number of foreigners.** When JVs employ foreign personnel, the number ranges from a minimum of one person (the JVGM) to a maximum of three persons. The key positions staffed with foreigners were the **GM position, the financial director position, and the industrial director position.** Commercial positions were staffed by locals with the only exception of BHA, which is a pure commercial JV justifying its staffing strategy.

Pescargen is the only JV following a different pattern, 50% of its operating personal is Spanish because of the lack of qualified personnel in the area in Argentina. Nevertheless, the proportion of foreigners working in the JV has diminished considerably.

One conclusion that we can draw from the present analysis is that **the need of foreign personnel to support JV activities decreased with time in our group of JVs.** Figure 26 shows that there was a very important foreign support need, mostly technical, during the JV starting period where production processes have to be designed and optimized in order to guarantee quality standards and customer satisfaction. But this need decreased once the operation was fine-tuned.

Figure 26: JV development and foreign personnel need



After the starting period, foreign support is mostly assured by training or by sporedic visits of foreign technicians to implement changes in the production processes. These changes do not occur very often because the life cycle of a car model lasts for several years and there are few changes once the production of the model has been established. Foreign interviewees rated very favorably the education level and qualifications of Argentine employees.

4.4 Learning

As we observed during the literature review, JVs offer a considerable learning potential. Questions 40 and 41 collected information concerning *the principal capabilities that foreign and local PCs wanted to acquire through their JVs and the way in which knowledge transfer took place.*

The data gathered through interviews showed that local and foreign partners went through a **two level learning process**. We may define the first learning level as "**planned learning**", which corresponds to clearly initially defined learning objectives. The latter were related mainly to **technology acquisition** in the case of local PCs, corresponding to previous findings on local partners' motivations to form JVs. The reader certainly remembers that one of local partners' main motivations to form JVs was to obtain a technology upgrade in order to improve their competitive position and to guarantee their survival.

Local companies absorbed new technologies through their JVs reinforcing their competitive position in their respective sectors. We may mention as an example the fact that all the companies belonging to the automotive sector are currently certified under QS9000 or other sector-based norms. The same is truth for companies belonging to the agribusiness sector, which also respect international quality norms.

Following the same reasoning pattern, one of the most important motivations to form JVs from a foreign PC perspective was to **acquire knowledge regarding the local environment**, and to use this experience as a market integration vehicle in the future. Some examples illustrating the latter follow.

Most foreign companies participating in our investigation started their activities in Latin America with their Argentine JV. Rieter Switzerland for example initiated its regional expansion in Argentina. The company learning process regarding the Latin American market started in Argentina, continued in Mercosur and expanded to the whole continent. Their Argentine operation allowed them to gain experience concerning the way of doing business in the region, and helped them to penetrate the Brazilian market.

Trèves followed a similar scenario, it entered Latin America through the Argentine door and continued its expansion to Brazil. The French company committed some mistakes while launching its Argentine JV but managers learnt a lot from their experience improving considerably the results of their following investment in Brazil. They took more time to plan the project and to train key employees in Europe.

Shifting to the agribusiness sector, Arco Bodgas Unidas began its internationalization process with BHA in Argentina. The experience was so positive that they have now plans to develop other JVs in various parts of the world following the Argentine model. In the case of AVEBE, the priority was also to get to know the Argentine and South American markets in order to increase their sales in the region.

Knowledge transfer took place in a more **formal manner in the case of technology related knowledge** than in the case of local context related knowledge. In other words, in the case of technology, knowledge was transferred through training programs, visits to foreign PCs, temporary personnel exchange, and so on. While in the case of local context knowledge, it was transferred by osmosis, though day-to-day personnel interrelations.

Technology related knowledge was principally confined to JVs since its transferability potential to local PCs was limited, while local context knowledge flowed to foreign PCs increasing their emerging markets knowledge database.

The second learning level could be defined as "indirect learning". The latter did not correspond to an initially manifested learning purpose but rather to an opportunistic learning process that developed following learning opportunities offered by the business relation. This type of learning occurred because of the shared management feature characterizing JVs, which creates an incredible potential of daily knowledge exchange.

Argentine managers benefited the most from this type of learning because their management level was behind the European one, in other words, Argentine managers had a higher improving potential than European managers had, and JVs gave them the opportunity to catch up. Some areas where local managers improved their knowledge were: quality management, just-in-time systems, planning processes, reporting methods based on international standards, distant project management, decentralization of activities, implementation of matrix organizations, financial rigor, and so on... All these elements transformed considerably the way of doing business of the local organizations concerned.

Local PCs were not the only ones to benefit of this type of indirect learning, Arco Bodgas Unidas from Spain learned how to manage an international operation and set the basis for their actual international expansion. Trèves from France learned to manage an international project through their Spanish subsidiary.

The persons that have learned the most are the ones leading JV's activities, those that interacted frequently at the board level, at the management level and at the operational level. Persons were not the only entities that learnt, organizations also did integrating improvements in their structures that will model work practices of actual and future employees.

Having presented and analyzed some important aspects related to the JV management, we are going to finish this chapter analyzing the role that the Argentine environment played in the development of our group of JVs, then we comment performance and partner satisfaction levels in our JVs, and finally present which are the key success factors to manage this type of alliances according to our group of respondents.

4.5 Environment

Environments in emerging markets are considered risky and highly unstable. Question 42's objective was to capture *the role that the Argentine environment played in the various JVs' development processes?*

All the managers interviewed highlighted the positive role that the Argentine global environment played in the development of their JVs. None of the JVs studied would exist today if it weren't for the structural reforms that the Argentine Government made in the late 80's and early 90's. The combination of macro-economic stability with the reactivation of the production activity, the opening of the economy and finally adequate international economic conditions helped Argentina recovering high economic growth levels. The automotive sector in Argentina passed from 90 000 vehicles produced in 1989-1990 to 400 000 in 1992-1993. Several constructors that left the country during the 80's returned with important investment plans. Many new investors also penetrated the Argentine market for the first time introducing new models and technologies.

The agribusiness sector was also characterized by important growth rates and it went through a very dynamic restructuring process in which foreign companies played an active role investing in production and distribution facilities.

Despite all the reforms and structural changes that the Government has applied to strengthen the Argentine economy, the country is still vulnerable to external shocks and some of its activity sectors are too dependent of the Mercosur market, particularly the Brazilian one. This is the case of the automotive sector, which has suffered considerably of the actual crisis that began when Asian and the Russian economies collapsed. As a consequence of the crisis, the Argentine automotive industry lost 50% of its exports in 1999 (mainly to Brazil), and production volumes have dramatically dropped (see section 3.3.3.3.2.4.1: The automotive industry). Some of the JVs that we integrated in our investigation produced in 1999 and are producing currently at 40% of their production capacity! For the first time in history, Mexico produced more vehicles than Brazil. During the first semester of 1999, Mexican plants produced 857 000 vehicles while Brazilian plants reached 758000 (America Economía, 21 October 1999, pp.15).

These kinds of market fluctuations can be mortal for many companies in the automotive sector and in the same way that the Argentine global environment was a determinant factor in JV creation it could be a determinant factor in JV termination.

Firms in the agribusiness sector have not been confronted to market volatility or to the Latin American crisis in the same way because they have developed a diversified world wide client portfolio. Consequently, Bodegas Hispano Argentinas' and Pescargen's sales volumes and results have not been reduced; on the contrary BHA exceeded its targets in the last years. Concerning AVEBE Argentina, its products are integrated in other products of daily consumption, in some cases even in basic goods such as bread. These types of products have not been hit by internal market fluctuations, and have allowed AVEBE to attain good results.

Despite the general improvement of economic conditions the Argentine and in general the Latin American environments are still highly unstable, they can attain very high yearly growth rates for several years and then collapse. The consequences of these kinds of market variations can be tremendous for companies that are not aware of such market characteristics and for those that do not dispose of solid foundations, and flexible organizations. The JVs that are performing the best are the ones that understood how to deal with drastic environment changes finding niches that are less vulnerable to market fluctuations or the ones that set up innovative organization structures minimizing fix costs or finally the ones that diversified their exports destinations.

4.6 JV's performance / results

Questions 43 to 46 gathered information regarding the level of JV performance and of partner satisfaction. *In your opinion, what is a performing JV? Which criteria you use to evaluate the JV's performance? Are you satisfied with the JV's performance? If you were to achieve the same objectives that you had before forming this JV, would you once again try to develop a JV or would you try another strategy, like investing alone, licensing etc.*

According to the managers interviewed, a **performing JV** is a JV that **reaches the objectives that both PCs fixed in the initial BP or a JV that allows each of the PCs to obtain higher benefits (financial and non financial) than those that they could have reached, had they invested alone, which corresponds to the well-known synergy definition $1 + 1 = 3$.**

The main criterion applied to evaluate JV performance in the group of JVs under study was **financial**, (each company used its own combination of financial indicators and ratios including: return on investment, return on sale, sales volume growth). Not surprisingly, PCs were satisfied when their JVs were profitable businesses with interesting growth potentials. But profits were not the only variable analyzed when measuring JV performance, **PCs took also into account other factors** such as the evolution of their competitive position (market share growth, growth potential), **customer satisfaction** (the relationship²⁷ between the JV and the constructor was considered as fundamental), **learning** (gaining market or technology knowledge), **respecting quality standards** (obtaining quality certifications such as QS9000 or other sector based norms), **improving production indicators** (productivity, number of products with defects / total production, number of work accidents, and so on), and finally **personnel motivation indicators** (absenteeism, personnel turnover etc).

In general **respondents were satisfied with the JV performance level** (Refer to table 29). The evaluation was made one year ago, when the crisis was already affecting the automotive industry. The situation has deteriorated a lot since November 1999 and an actual evaluation will probably give different results.

²⁷ Mr. Hürlimann and Mr. Gastaldi explained that there are certain benefits that are difficult to quantify. The decision to follow a client to a certain country will certainly have a positive impact on future worldwide businesses with the client but it is difficult to measure that impact. If the JV project is considered in an isolated way, it may appear to be not very successful in financial terms but considered as part of a division or a company, it may appear to be a successful move.

Table 29: JV performance

JV	JVGM origin	Foreign partner performance evaluation	Local partner performance evaluation
RB-Benteler	Local	High	Medium-high
EURMON	Foreign	NA	High
Rieter Argentina	Foreign	Medium – low	Low – medium
Treymi	Local	Medium	Medium
Base	Local	Medium	High
BHA	Foreign	High	Medium – high
AVEBE Argentina	Local	Medium – high	NA
Pescargen	No JVGM	High	High

Both PCs constituting RB-Benteler were quite satisfied with the global JV results. From a customer satisfaction point of view (level of quality and delivery delays) both PCs presented the same level of satisfaction. There was a slight difference concerning the financial evaluation, Benteler was satisfied with the JV economic results while the Argentine partner had higher expectations that could not be met due to environmental difficulties.

EURMON's performance was higher than expected and the local partner was "more than satisfied" with the JV financial results. Besides financial results, the local partner took also into account indirect effects such as knowledge acquisition (technology and management based), and the possibility to be active in new markets.

The situation at Rieter Argentina was not as good as in the preceding cases. One of the Swiss responsables interviewed explained that the JV performance was not a 100% what they were expecting because Brazil was not absorbing the quantity of cars that they initially forecasted.

The management team thinks that it is a question of time, that there is a good growth potential in the region, that they are doing their job correctly, and that success should be measured using a longer-term perspective. In the mean time the JV is adapting its structure to the new market conditions. The local partner evaluated the JV using a shorter-term perspective, and the evaluation results were negative since the company has been loosing money for several years.

After a turbulent starting period, Treymi finally reached its cruise speed producing a moderate satisfaction level to its French and Argentine PCs. Both parents are satisfied because the time of quality problems and of non respect of delivery delays are over. Argentina will not be a source of problems nor will it be a gold mine, but the overall situation is under control.

Performance evaluation between foreign and local PCs coincided fairly well in most JVs studied, which means that there were no important differences in JV evaluation. The exception to the rule was Base, which presented the higher evaluation difference, although the difference was not extremely significative. Mr. Gastaldi explained that the two main criteria he used to measure the JV performance, in order of importance, were profits and good relations with their main client (the latter means following the client in its international strategy = becoming a leader supplier). He was satisfied at 50% with the JV performance since it met the second criteria; nevertheless there are still some efforts to undertake to meet profit targets. The local partner had a higher satisfaction level regarding the JV performance, he considered the JV fast growing pace, the fact that new products were added to the product portfolio, that new machines were bought, new personnel was hired. According to him all the latter's aspects are a sign of better future results.

Shifting to the agribusiness sector, Bodegas Hispano Argentinas' results have been quite satisfactory for both partners. The Spanish PC keeps investing in Argentina and has very aggressive development plans for the next years. The satisfaction level is also high at Bodegas Norton, the local PC, since export objectives were exceeded. Nevertheless, internal market objectives were not attained, sales in the internal market were supposed to finance the JV but introducing a new brand into the market took more time than the one planned. According to Dr. Boveri, the objective should be attained in the year 2000 or 2001.

The satisfaction level at AVEBE was also high, although better results were expected earlier. Mr. Dethmers explained that (real) results were one year behind their forecasts (theoretical results).

Finally Pescargen has attained all its initial objectives and the JV financial performance is good, although unstable, since financial results depend on world fish prices, which can vary considerably from year to year, affecting profits.

Regarding the final question, *if you were to achieve the same objectives that you had before forming this JV, would you once again try to develop a JV or would you try another strategy, like investing alone, work under a license scheme, etc.* All the respondents answered that they would choose the JV option again because it provides a faster entry to the market, vital knowledge regarding the local market, the transfer of state of the art technology and management techniques. In sum, managers interviewed think that the learning potential offered by JVs is higher and risks are lower than in other investment alternatives. Table 30 presents respondents' arguments in favor of JVs.

Table 30: JVs vs. other investment strategies.

JV	Foreign parent companies' arguments	Local parent companies' arguments
RB- Benteler	"... There is a principle here in Benteler that states that we should rely as much as possible on the knowledge of the local partner. Each market of the world has its network of connections and it is extremely difficult to penetrate it unless you are in the market for several years. JVs facilitate the entrance to an unknown market and that is the reason why we prefer them to other investment alternatives in emerging markets..."	"... The actual industry situation in Argentina makes it impossible to survive without the foreign partner technological input, in that context the JV represents a very good investment option..."
EURMON	NA	"... In this particular case we had two alternatives, a technology transfer or a JV. I preferred the JV alternative because the learning potential is higher..."
Rieter Ar.	"... We had to follow one important client to Argentina. We already had a licensee over there but our responsibility in the world car project is too big to let it completely on the hands of a local company. On the other hand, it was a nonsense to make a new investment in Argentina because we would have become a competitor of our licensee. The best solution was to set up a JV..."	"... We would do it again, we have no choice. We are not the ones that settle the business rules, the terminals do it. Although I do not think that they would make the same kind of investments had they to do it again..."
Treymi	"... We would do it again, the JV is well adapted to the local situation, it is a small market and we benefit of the local partner support. We are sharing the risks..."	"Forming a JV was vital for the local PC because today the Argentine automotive industry requires that local companies behave more like their European suppliers than like third world firms..."

JV	Foreign parent companies' arguments	Local parent companies' arguments
Base	"If I had the possibility to decide again whether to form a JV in Argentina or to choose another form of investment I would form again a JV. These projects are always difficult to manage but despite all the things that are not working perfectly I made the right decision. We are not a big international company and we needed the local input, the local knowledge to succeed".	"I would do it again".
BHA	"... We would form once again a JV, it allows you to penetrate an unknown market in a responsible way, you share the risks..."	"We would do it again"
AVEBE AC	"... We would do the same thing, we do not have the necessary knowledge of the Argentine market to operate alone. The local partner support is a critical resource..."	NA
Pescatgen	"Besides the JV we had another alternative to come to Argentina, we could have bought directly the fish licences and operate alone. The market offered a good opportunity and we took it, we are happy that things turned that way".	"I would do it again. This JV has been a good alternative because each partner has obtained more than if he had invested alone because we were very complementary. Besides, the market in which we operate fluctuates a lot, there are excellent years and bad years, if we were doing business alone, good years would not be as good as they are and bad years would be worse".

4.7 Key success factors

Question 47's objective was to identify European-Argentine JVs' key success factors. We developed a non-exhaustive list of key factors and asked the different managers to rank them (Please refer to the interview guide to see the list that we proposed). We also asked the group of respondents to add other key success factors to the list if they considered it necessary. Table 31 presents the evaluation results.

Table 31: Key success factors

Factor	Score *
Partner selection	14
Top executives commitment	14
Clarity of each partner's role	14
Communication between partners	14
Frequent result feedback	14
Past alliance experience	13
Establishing links between top executives	13
Build the relationship	13
Accurate planning	13
Establishing realistic expectations	13
Financial commitment	12
Share risks and resources	12
Clarity of objectives	11
Learning from the partner	11
JVGM selection	11
Clarity of payback time	11
Cultural differences alignment	11

* The score was obtained adding the number of completely agree and agree answers (Appendices 22 to 24).

Some respondents had some difficulty evaluating the different factors since they considered that they were all very important. The use of a different evaluation strategy would have probably given better results. For example we could have asked to select the three most important factors from the list.

4.8 Conclusion

Following the presentation of the main features characterizing the JVs included in this research (chapter 3), this chapter displayed and analyzed complementary data collected through visits to the JVs and PCs in Argentina and Europe. It also confronted the data regarding the different JVs in order to identify meaningful similitudes or / and differences among the cases studied. The data confrontation process was guided by a double logic. On one hand, our aim was to analyze similitudes / differences among all the JVs, and on the other hand, our objective was to analyze similitudes / differences between the automotive and the agribusiness sectors. Chapter 5 introduces the main conclusions following from these confrontations.

5. CONCLUSIONS AND IMPLICATIONS

5.1 Introduction

Throughout this chapter, we will introduce the main conclusions regarding our research questions. After presenting the main conclusions, we will expose various strategies and tactics for Argentine-European JVs, and we will terminate evidencing research limitations as well as possible paths for future research.

The research objectives in this dissertation were **descriptive and explanatory**. We wanted to understand why European and Argentine firms form JVs? How do they create, manage and evaluate the performance of their JVs, why some JVs perform better than others, and finally what lessons can be drawn from these JV experiences? The main contributions that this dissertation made to the literature were the following:

- It synthesized the body of knowledge presenting a systemic view of JVs instead of focusing on one particular issue or on a limited number of variables;
- It improved the understanding of strategic motivations for JV formation between DCs' and LDCs' companies;
- It examined European-Argentine JVs, which have never been the object of a CS in the past;
- Finally, it took into account both PCs' perspectives in a balanced manner.

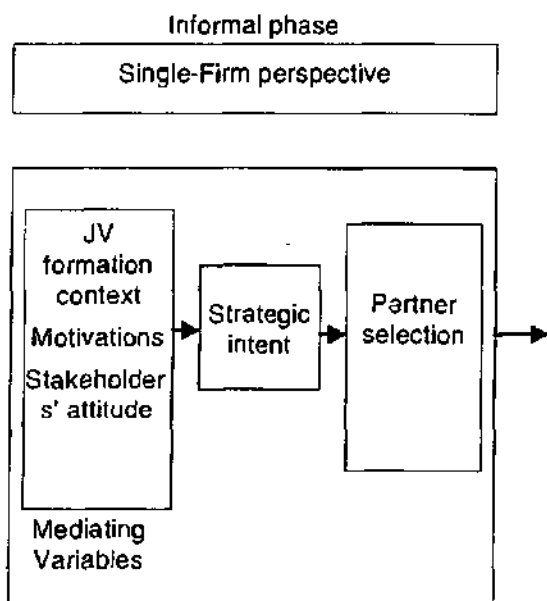
5.2 Conclusions regarding our research questions

We will follow the logic of the JV systemic view diagram (figure 4), once again, in order to structure this section.

5.2.1 JV's formation stage: Informal phase

We will begin presenting the main conclusions related to the informal phase of the JV formation process illustrated in figure 27.

Figure 27: Joint venture's formation stage framework



Source: Adapted from Büchel, B. (1996). *Development of Cooperative Arrangements: Building a Framework Through Qualitative Research* Doctoral dissertation, University of Geneva.

5.2.1.1 JV formation context and motivations

The literature review and particularly, section 2.3.1.1.1, highlighted the main motivations that DCs' and LDCs' companies had when forming JVs. Our findings on the matter generally supported the ones presented in the literature, nevertheless there were **two inconsistencies**. The first one concerned the role of **government legal constraints**. In fact, one of the most important factors explaining JV formation, following the DC's perspective, was overcoming government legal constraints (Tomlinson, 1970; Stevens, 1974; Gullander, 1976; Janger, 1980; Tomlinson, 1982; Beamish, 1987; Gomes-Caseres, 1989; and Buckley, 1996). The second element that differed from previous research was the **technology complementarity** that two foreign companies in the agribusiness sector (BHA and AVEBE) were looking for, when forming their JVs. As a matter of fact, both European companies were looking, among others, for a technological input from their local partners, which represented a rather unusual situation in DCs – LDCs JVs.

This research had varied results about the role that government legal constraints played in JV formation decisions among European and Argentine companies. Sections 4.2.1.1's and 4.2.1.3's findings revealed that the main factors influencing JV formation decisions were business related (Obligation to follow a client on its internationalization process, faster entry to the local market, lower costs, access to regional markets, local knowledge, local contact network, access to resources (commodities), and technology). Therefore, the role of legal constraints in JV formation was non-existent.

These findings are inconsistent with the literature. The main reason explaining this inconsistency is that most studies regarding Latin American countries are old and therefore do not take into account the important changes that their legislations experienced during the 90s, nor the competitive improvements that many companies in the region achieved. Most Latin American countries have opened to foreign capital during the 90s, a few restrictions to foreign capital subsist in a limited number of countries and in a limited number of strategic sectors such as oil or telecommunications. Nevertheless, investment conditions have improved considerably in the region as the Argentine example demonstrated it in section 3.3.3.3.2.3.

5.2.1.1.1 Revisiting the theory

Section 2.2. presented some of the main theoretical explanations regarding JV occurrence. Our concern in this section is to interrogate ourselves about the extent to which our empirical findings supported the theoretical framework.

In a general manner, the group of cases that we studied supported the theoretical framework in a moderate to high degree. Cases in the Argentine automotive industry presented a higher degree of support than the ones in the agribusiness sector. The latter applied particularly to the monopoly and population ecology theories. This can be explained by the structure of the cases analyzed. In fact, the view of the Argentine auto parts industry was more complete than the view of the other industries included in our study (European auto parts industry, Argentine and European agribusiness industries) because a) There are less players in the Argentine auto parts industry than in the French or Italian ones, therefore results can be easily generalized in Argentina but not at a European level; b) Cases in the agribusiness industry were related to various industry sectors (each case concerned

a different industry sector: wine, potato starch, and fish), rendering impossible any industry reflection at the Argentine or European levels.

5.2.1.1.1 Monopoly theory

According to the monopoly theory, companies form JVs in order to increase their monopoly power. Their objective is to increase their market share and to raise barriers to entry to increase their profits.

The monopoly theory's explicative power of JV occurrence in this study was moderate to high, particularly in the Argentine automotive industry. The JV formation contexts presented in section 4.2.2.1. showed how Argentine and European companies used JVs to increase their market power.

- **Argentine perspective:** The Argentine automotive industry went through a deep reorganization process during the 90s. The market liberalization process had a strong impact in the local industry in which the strongest groups expanded by integrating vertically, buying firms that were facing difficulties. This first reorganization phase was followed by an alliance formation phase that allowed local companies to acquire up to date technology and management practices indispensable to some critical activities. The industry's reorganization process resulted in a reduced number of actors in the market with an increased market power.
- **European perspective:** The world car concept changed the role of European auto parts firms, which has evolved from the production of simple parts under the direction of car manufacturers to a situation where they became strategic partners that develop complex systems that are integrated into vehicles. Car builders have reduced the number of suppliers in the world, and have developed close commercial relations with them. Projects are not national or regional any more, they are global, and auto parts companies are forced to play in the global environment following their clients wherever they invest. JV formation has played a key role in the internationalization process of European auto parts companies, and has therefore contributed considerably in strengthening the relation between car manufacturers and auto parts firms, increasing the market power of the latter in the European auto parts industry.

5.2.1.1.2 Transaction cost theory

According to the transaction cost theory, companies form JVs when this structure is able to function more efficiently, with lower TCs, than markets or hierarchies. The objective here is cost minimization.

The TCT's explicative power of JV occurrence in this study was high, and concerned all the JVs included in the research. Section 4.2.1.3. regarding partners' motivations to form JVs showed how Argentine and European companies used JVs to minimize their TCs.

- **Argentine perspective:** In general, Argentine companies are not technology producers but technology buyers. Companies in the auto parts and the agribusiness sectors needed a technology upgrade (refer to section 4.2.1.1. JV formation context) and they had various options to acquire the technology. The first one was to buy the technology in the market, which meant principally forming license contracts with European companies. The option was feasible but costs were elevated (costs of searching an adequate partner, contractual costs for closing the deal, costs for the correct execution of the deal, and so on). The second option was to buy a foreign company able to develop the required technology and integrate it into the firm's infrastructure, which is an interesting theoretical example but has no real application, at least in the group of companies that we studied, because the objective goes well beyond their financial capacity. Finally, the third option was to form cooperative arrangements, which was the preferred form of investment since it reduced costs and increased learning possibilities.
- **European perspective:** The group of European companies that we studied had to invest in Argentina for several strategic purposes (refer to section 4.2.1.1: JV formation context and section 4.2.1.3: partners' motivations to form JVs). Here again companies had various options to enter the Argentine market. The first one, and the less risky one, was to export to Argentina. The problem here was that the final products costs were too high, and the lack of local presence was a penalizing factor, particularly in the automotive industry, where proximity between actors is crucial. The second option was to penetrate the market investing alone, building a wholly owned subsidiary, buying all the necessary products and services in the market, which implies buying land, building a plant, contracting qualified personnel, developing distribution channels, creating a client portfolio, and so on. The costs and risks of this

strategy were very high, and the investment perspective was long-term oriented. The third option was to buy a local company in order to diminish the transaction costs induced by the internationalization process. Besides presenting important costs, this strategy presented high risks because one never knows exactly what one is buying when acquiring a company in a LDC, consequently additional costs had to be projected. Finally, the last option was to form cooperative arrangements, which was the preferred form of investment since it reduced costs, fastened the market entry process and finally increased learning possibilities.

5.2.1.1.1.3 Game theory

According to the game theory, companies form JVs when managers think that they will get more out of cooperation than if they do not engage in any cooperation. The objective here is to maximize payoffs.

The game theory's explicative power of JV occurrence in this study was high, and concerns all the JVs included in our study. Sections 4.2.1.1: JV formation context, 4.2.1.3: partners' motivations to form JVs, and 4.2.1.5: PSP, showed how Argentine and European companies used JVs to maximize partner complementarity, building a win-win and synergetic situation. In other words, maximizing future payoffs.

In addition, table 30: (JVs vs. other investment strategies) showed that the totality of managers interviewed would form again the JV had they the opportunity to start things from scratch again. One of the managers interviewed resumed very well the payoff maximization concept "*I would do it again. This JV has been a good alternative because each partner has obtained more than if he had invested alone because we were very complementary. Besides, the market in which we operate fluctuates a lot, there are excellent years and bad years, if we were doing business alone, good years would not be as good as they are and bad years would be worse*".

5.2.1.1.1.4 Resource dependence theory and resource based view of the firm

According to the resource dependency theory, companies form JVs because they are not able to generate internally all the resources and functions they require to survive. Therefore, they must enter into relationships with other organizations in their environment.

According to the resource-based view of the firm, companies form JVs because distinctive or firm-specific resources are not distributed equally among firms. To improve their strategic position, firms must seek for resources that enable them to share costs and risks from other companies.

The CS's results supported strongly both theories' hypotheses regarding JV occurrence. Sections 4.2.1.1. and 4.2.1.3. (JV formation contexts and motivations) showed that JVs were marriages between companies seeking for complementary resources and skills in order to face important environment changes and by doing so improve their strategic position.

Argentine companies were looking to upgrade their technology, access to capital, lower total capital investment, lower costs, gain management know-how, brand recognition, access to international markets, access to an international network. While European companies were looking to faster the entry to the local market, lower costs, access regional markets, gain local knowledge, integrate a local network of actors, access to resources (commodities), and finally technology.

5.2.1.1.1.5 Population ecology theory

According to the population ecology theory, firms engage in JVs as a response to environment uncertainty. Partners engage in JVs in order to achieve stability, predictability and dependability.

The group of Argentine companies that formed JVs in the automotive industry was the one that supported the best the population ecology theory hypothesis concerning JV occurrence. The reasons explaining this situation were presented in this section's introduction and refer principally to the characteristics of our sample of JVs.

Sections 4.2.1.1. and 4.2.1.3. (JV formation contexts and motivations) showed that our group of Argentine companies in the automotive industry used the JV organization form to survive to the market liberalization reform process.

Before the 90s, Argentine companies belonging to the automotive sector lived as a protected population (to a certain extent they still do it but at a Mercosur level), and exerted their activities in a closed environment guarded of external dangers. Production levels were rather low, stable, and vehicles were produced with obsolete technology compared to DCs' standards. The liberalization process

started at the end of the 80s and opened the sector to regional and world markets. The latter produced an important shock in the industry because increased levels of trade induced increased levels of imports, which in their turn induced an increased level of competition. The shock produced a sort of sector-based revolution that allowed Argentine automotive companies to adapt to changing environment conditions. The new economic context imposed different game rules such as modern technology, higher productivity levels, higher trade volumes and so on. Several companies disappeared during the adaptation process, others were absorbed, and some became stronger. The technological upgrade was impossible to handle without the input of foreign companies, which explains the strategic alliance formation process that occurred in the sector.

5.2.1.1.1.6 Organizational learning theory

Finally, the organizational learning theory stipulates that companies form JVs to acquire knowledge or to internalize the skills of a partner.

All the JV cases that we studied **supported strongly** the theory's hypotheses. Sections 4.2.1.1. and 4.2.1.3. (JV formation contexts and motivations) showed that knowledge acquisition was a key factor in JV formation.

Argentine companies needed to learn about modern technologies, state of the art management techniques, international markets. While European companies needed to learn about the Argentine and Latin American markets' characteristics, and in a couple of cases also to exchange technology related knowledge.

5.2.1.2 Stakeholders' attitude towards JV formation

Section 2.3.1.1. pointed out the fact that obtaining stakeholders blessing was a critical political consideration in JV formation. The initiators of the JV have to ensure that important internal and external stakeholders will see the benefits of the JV and thus support it in order to increase the chances for smooth implementation.

The positive relationship²⁸ between stakeholders' blessing and smooth JV implementation was verified by our empirical findings (section 4.2.1.2.). The higher level of consensus that existed when discussing

²⁸ By positive relationship we mean that more of one variable induces more of the other variable or less of one variable induces less of the other variable.

the formation of the JV, then the faster and better the implementation process was. Consensus was rather easy to obtain in most JVs under study since PCs were in their majority SMEs, which implied a family ownership structure and management. Not surprisingly consensus was more difficult to obtain in larger firms because there were more actors involved in the process.

There was an interesting particularity in the automotive sector where **clients (car manufacturers) played a determinant role in JV formation**. Car manufacturers created the JVs opportunities, advised certain European and Argentine auto parts companies regarding the partner to contact in order to begin negotiations, and finally had the final word for blessing the JV.

5.2.1.3 Strategic intent

Our objective regarding the strategic intent issue was to determine if Argentine and European companies developed a clear strategic intent before starting JV discussions and negotiations or if in the contrary there were cases where PCs took advantage of a market opportunity, or in other words, of a business proposition formulated by the other partner. Section 4.2.1.4. demonstrated that **almost all the PCs included in our study had a clear strategic intent before starting JV discussions** besides Norton that took advantage of a market opportunity to develop a new business.

5.2.1.4 Partner selection process

The literature review on the matter (section 2.3.1.1.2.) showed the determinant role that the PSP plays in the JV development since it determines the quality and quantity of resources (financial, technological, human and so on) that will be available to the organization. It also highlighted that careful identification and selection of appropriate partners takes time, and is a very difficult task where complementarity, compatibility and mutual confidence are crucial. Finally, it emphasized that the PSP determines the type of relation that will exist among PCs (balanced or unbalanced / close or distant etc.).

Besides supporting the latter, section 4.2.1.5's results deepened the understanding of the PSP between European and Argentine companies giving a detailed description regarding the different stages of the PSPs and their respective characteristics (criteria used to evaluate potential JV partners, number of partners that were formally

evaluated; time necessary to accomplish the processes, and finally asymmetries that existed between PCs).

Table 25, resumed the main aspects characterizing the PSP of the different JVs studied. Some important elements characterizing the processes were:

- **Foreign PCs planned and implemented their PSPs much better than local PCs, even when foreign PCs did not have previous JV experience.** The latter can be attributed to the fact that management expertise within foreign PCs included in this research was more developed than in local PCs.
- **PCs used two main categories of criteria to evaluate their potential JV partners, criteria related to resources and criteria related to firm compatibility.** On the resources side, **technology and technology related aspects were essential to local PCs while access to raw materials and to local market knowledge were vital to foreign PCs.** Regarding firm compatibility, we did not observe a pattern differentiating foreign and local PCs nor PCs in the auto parts and agribusiness sectors. Nevertheless, **PCs looked for as many stabilizing factors as possible in order to diminish JV failure risk.** Some examples of stabilizing factors that PCs were looking for were: establishing a good relationship (chemistry played an important role), build a solid joint understanding, avoid competition through exclusivity clauses, try to find a "similar" partner (family owned company, similar size, similar production philosophy...). **Finding a relational fit between JV partners was a key element in the JV formation process.**
- **Clients (car manufacturers) played a determinant role in the PSPs in the auto parts sector.** In several cases they suggested to their foreign and local suppliers the companies that they should evaluate to form a JV. They even had the final word to approve or disapprove the JV.
- **In most cases, PCs evaluated more than one company to form their JVs obtaining an acceptable comparison level.** Local PCs needed more time to find a partner than foreign PCs because they followed a less planned and structured process.
- **There were important asymmetries between PCs such as firm size, level of resources, type of activities, and operating range.** Asymmetries between PCs facilitated the negotiation processes by diminishing the confrontation potential. Two unequal forces that operate in different geographical areas have

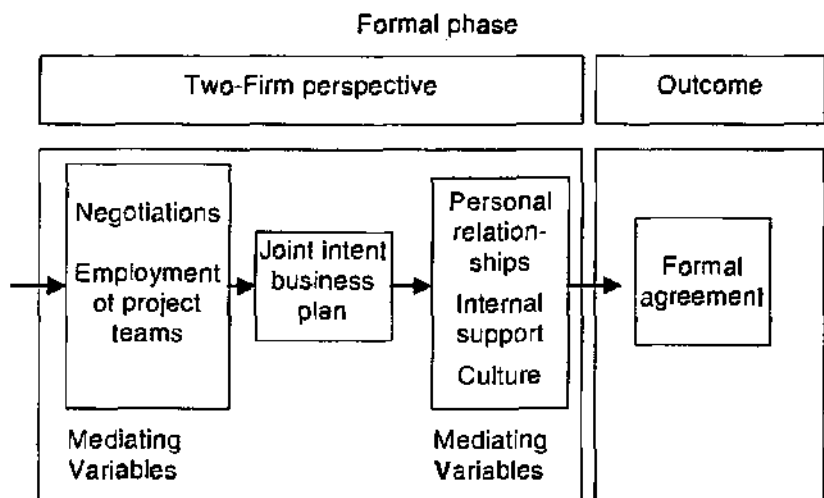
better chances to find an agreement than two similar forces that fight in the same arena (See figure 19, pp. 217).

We identified **two types of PSPs** among the eight cases studied. On one hand there were some cases where **previous commercial relations existed already** between partners (the Argentine firm acted as a licensee or as an agent of the foreign firm). On the other hand there were other cases where **no previous commercial relations existed**, and firms had to screen the environment, analyze it, and evaluate candidates to form the JVs. **We cannot conclude that firms that had previous commercial relations performed better than those who started the relationship from scratch.** Knowing already the JV partner certainly helped to overcome certain difficulties, but JV performance was influenced by many other variables, particularly macro-economic ones.

5.2.2 JV's formation stage: formal phase

We will proceed presenting the main conclusions related to the formal phase of the JV formation process illustrated in figure 28.

Figure 28: Joint venture's formation stage framework



Source: Adapted from Büchel, B. (1996). *Development of Cooperative Arrangements: Building a Framework Through Qualitative Research* Doctoral dissertation, University of Geneva.

5.2.2.1 Negotiations and business plan

The literature review concerning the negotiation process on section 2.3.1.2. showed that PCs start JV discussions with different strategic intents and that they try to find compatible definitions of the joint intent through negotiations. Partner compatibility manifests in the BP, which essentially captures the areas of strategic match and mutual gain. The negotiation process that both partners have to undertake to reach consensus focus on several important issues such as JV objectives, JV legal form, contributions of each partner, distribution of benefits, JV management and control, competition clauses, expected life span of the JV, dissolution conditions and so on.

The analysis of data on section 4.2.2.1. showed that European and Argentine negotiations within our group of JVs were rapid and presented a low level of conflict. PCs were in a favorable situation to cooperate since in some cases they already had a good previous commercial relation (Rieter Argentina and AVEBE Argentina) or they presented a low degree of confrontation (Refer to figure 19) operating in different markets (Argentine companies were active at a national level and foreign companies at a world level), and presenting important power asymmetries (See table 25: Characteristics of PSPs, main asymmetries). Therefore, the ensuing degree of confrontation or competition was rather low. Additionally, potential clients existed already. The reader may remember that clients were one of the main forces pushing towards JV formation particularly in the auto parts sector.

The relationship between PCs owners facilitated, and played a determinant role in the negotiation processes. In most cases, the negotiating teams included PCs' owners. Direct interaction between owners favored considerably the negotiation processes because whenever a disagreement or a bottleneck was reached, both owners discussed directly and resolved it very fast.

The main negotiation elements were the following:

- **Capital structure (who brings what to the JV?):** Most JVs started with an equilibrated capital structure following a trust building strategy;
- **Board of directors:** Ensuing from the capital structure, boards were formed with an equilibrated power distribution or with a slight foreign partner majority;

- **JVGMS:** 50% of JVs under study had local GMs and 50% foreign GMs;
- **Competition and exclusivity clauses:** Several foreign companies integrated such clauses in order to delimit their businesses scope and to protect their interests;

According to several managers interviewed, a key success factor at this stage is to **discuss as soon as possible about as many problems as possible in order to facilitate further JV formation stages and increase JV success**. The negotiating teams should never leave unclear points for later discussion, they should also establish a long letter of intent before signing the contract in order to obtain a pre-agreement on most critical points.

An additional key success factor applicable for Argentine negotiators is to **understand as much as possible the global, regional, and local strategy followed by the foreign PC, and try to figure out how the local company strategy can fit on it**.

5.2.2.2 Personal relationships

Section 2.3.1.2. demonstrated the influence that personal relationships exert in JV formation and development (Lorange and Roos, 1991; Kanter, 1994; Büchel, 1996). Our findings on the matter supported the ones of the literature. However, we found an inconsistency with regards to Büchel's JV formation stage framework. In fact, the latter assumes that personal relations play an active role sometime before the formal agreement is reached. While our findings indicated that **personal relations and chemistry among PC's managers play an active role not only at that specific stage of the JV formation process but since PCs meet (see section 4.2.1.5. PSP, particularly table 25, and section 4.2.2.2: The role of personal relations and culture in the JV formation process)**. We can explain the inconsistency by the fact that reality is too complex to be captured by a single model. Büchel's JV formation framework applied perfectly to her study but do not match perfectly the situations described by this one.

5.2.2.3 Internal support

Section 2.3.1.2. pointed out that internal support is also an important variable to take into account when forming JVs. This political consideration involves ensuring that a broad range of people within the organization is committed to and enthusiastic about the venture. It may seem to be a given to state that the more internal support exists when

launching a project the more chances it has to succeed. However an adequate level of internal support is not always easy to obtain, particularly in large organizations. PCs participating to this research were mostly SMEs and internal support was generally strong (few persons were involved) facilitating the JV formation and development processes.

5.2.2.4 The role of culture at JV formation stages

The literature review, specially section 2.3.1.2., presented two points of view regarding the role of culture at JV formation stages. On one hand authors such as Lane and Beamish (1990) argued that cultural differences hinder the decision-making process during JV formation, and on the other hand, Büchel (1996), argued that cultural differences do not hinder decision-making as long as these differences have not been perceived. According to her, cultural differences are usually not perceived until later stages of cooperation.

Our study supported the second view revealing that managers perceived little cultural differences at early stages of JV formation (refer to section 4.2.2.2. The role of personal relations and culture in the JV formation process). The latter can be explained by the fact that cultural differences are not fully evident at the first stages of JV formation, they become apparent as the JV starts operating and interactions among individuals multiply. We could say that there is a sort of assumed cultural similarity at early stages of JV formation. An additional explanation is that, for historical reasons, there is a small cultural gap between Argentina and Latin European countries. The problematic would be certainly different had we included Asian or Arab firms in our CS.

5.2.2.5 Formal agreement

Respondents considered establishing a contract as a **fundamental issue** obliging the contractual parts to be loyal to the JV spirit and to the conditions agreed during the negotiation process. Interviewees brought up several classical aspects that have to appear in a contract such as entry and exit conditions, capital structure, composition of the board of directors, the way in which GMs and other key positions have to be staffed, transfer prices of PCs' products and services, royalties that the JV will have to pay for the know-how that it will receive, exclusivity and competition clauses and so on.

According to managers interviewed, a **good contract should take into account as many scenarios as possible** providing solutions to future possible conflicts. Some of the issues that should be considered include competition between the JV and PCs, succession of top managers inducing change of JV objectives and / or power structure (refer to section 4.2.3. Formal process: outcome). These aspects have to be considered because they can generate important conflicts in the future, and there is a great advantage to count with established guidelines in case of bottlenecks.

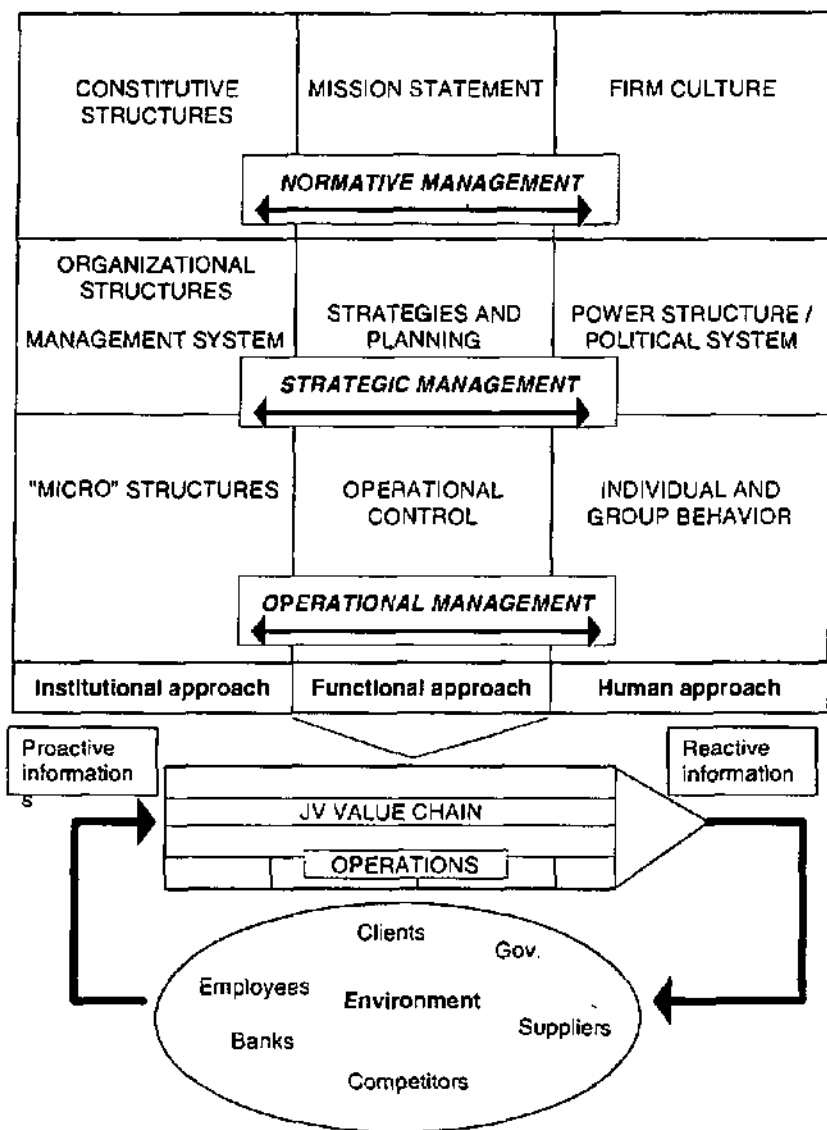
5.2.3 Management concept

This section will introduce the main conclusions regarding the topics covered by the management concept (figure 29). This section will not cover certain aspects such as the constitutive structures, and the mission statement, since they resulted from the JV formation framework, respectively from sections 5.2.2.5. Formal agreement and 5.2.2.1. Negotiations and BP, and consequently were already covered.

5.2.3.1 Firm culture

The literature review introduced the cultural problematic in section 2.3.2.2. The main ideas that emerged from the literature were that cultural differences or distance among partners could be a major problem in managing IJVs (Datta, 1988; O'Reilly, 1988; Lane and Beamish, 1990; Baird, Lyles, and Wharton, 1990; Swierczek and Hirsh, 1994; Shaughnessy, 1995; Sweeney, 1996). Cultural differences are accentuated when IJVs include DCs and LDCs since the culture of LDCs often dictates putting family interests ahead of rational business development. Conflicts between the foreign and local parents over the future company goals and the distribution and use of profits are frequent (Lane and Beamish, 1990). Other differences between PCs exist at the organizational and administrative practices levels, at the employee expectations level, and at the interpretation of and response to strategic issues level. Consequently, communications between culturally distant partners can be difficult, compounding the coordination problems that exist in any partnership, leaving such JVs vulnerable to managerial conflicts and early dissolution (Camerer and Vepsäläinen, 1998; Lane and Beamish, 1990).

Figure 29: Management concept



Our findings on the matter (section 4.5.1. Cultural differences) generally supported the ones presented in the literature. However **one slight discrepancy** emerged with regards to Lane's and Beamish's (1990) argument regarding the dominance of family interests in LDCs' PCs. The latter may apply to many developing countries including many Latin American ones. Nevertheless, the liberalization process changed in some way the situation in Argentina where the wave of privatizations, M&As, and strategic alliances has contributed considerably to reduce the role of non-professional management (nepotism) in Argentine firms (section 4.2.1.3.).

Considering culture at a national level, we found **two more or less differentiated cultural groups** among our JVs. The **Latin group**, formed by countries characterized by a Latin origin like Italy, Spain, France, and Argentina, and the **non-Latin group of countries**, comprising the Netherlands, Germany, and Switzerland.

Interviews to managers belonging to the group of Latin countries did not evidence the existence of important cultural differences, while a certain cultural cleavage was observed in JVs involving an **Argentine and a non-Latin European country**. The main differences according to this group of non-Latin European managers concerned the language, the living style, the historical frame of reference, and the way of thinking, which opposed a logic and structured approach to an impulsive and disordered approach (refer to section 4.5.1. Cultural differences). **Cultural differences have not blocked JV development, nevertheless they have slowed down considerably the process.** In their turn, Argentine managers perceived cultural differences in JVs involving Latin and non-Latin countries. They signaled an excess of structure and procedure in the way of doing things within managers originating from non-Latin European countries. Such behavior in the Argentine environment translated often into non-adapted or/and costly solutions.

Considering culture at the industry and firm levels, the Latin and non-Latin cleavage was not apparent, **there was rather a DCs – LDCs, and a big company – small company cleavage.** European and Argentine industries have followed different development patterns and each industry in each country is characterized by **different business practices and different business mentalities**. The profession is the same in each country but the way of exercising it differs a lot in terms of technology, production volumes, competition, quality standards, market fluctuations, and so on.

The latter has influenced considerably the size, the type of organizations and the management mentality that have developed in each environment.

Resuming, cultural differences in the group of JVs studied have not been a major source of conflicts, and have not endangered JV survival. However, they have slowed down JV development processes posing communication and coordination difficulties.

5.2.3.2 Organizational structures

Section 2.3.2.3. Global organizational structures, showed that JVs have self-organizing properties that can be designed and managed to cope with evolutionary pressures and ensure their success (Lorange and Probst, 1987). According to these authors, the reason for many JV failures seem to be that they have not been designed with sufficient adaptive properties to cope with environmental turbulence. They suggested four self-organizing properties for JVs: complexity, self-reference, autonomy and redundancy. Although we did not collect data specifically to evaluate our JV's self-organizing properties, we were able to deduce from the information gathered that our group of JVs have moderate adaptive properties enabling them to adjust to environmental changes (refer to section 4.3.2. Organizational structures).

We also found that JVs that chose a nurturing organization structure to start operations in Argentina were more successful than the ones that built a completely independent structure since the beginning. The latter can be explained by the fact that markets fluctuate dramatically in emerging countries and therefore, a strategy privileging caution, and growth according to real market potential is superior to any other strategy.

5.2.3.3 Strategies and planning

The literature review, particularly section 2.3.2.3., indicated how important it was for JVs to carry out their strategic reflection and planning process autonomously in order to strengthen their adaptive properties by reducing complexity (reducing the number of actors and interests involved in the processes) and increasing self-reference (improving the learning potential and generating adaptive feedback measures). Our interest in this research regarding the strategy and planning themes was to understand their characteristics within our group of JVs.

We found that although JVs participated in the processes they did not have complete control over them. PCs did, they were in charge of setting up strategic guidelines and controlling JV progress, while JVs had a consultative role, and were in charge of the operational aspects (Refer to figure 23).

5.2.3.4 Power structure, political system

According to the literature review, JV organizational politics are much more complicated than those of wholly owned subsidiaries because they involve multiple parents. In that context, JV politics determine to a large extent the organization's vulnerability and consequently can be considered as a key element in JV development (See section 2.3.2.5.). Our objective regarding this JV management aspect was to understand how European and Argentine PCs shared power to control their JVs.

We studied several elements constituting the formal power structure such as the JV ownership structure, the role of the board of directors, and the role of the JVGM. We found that most JVs were formed with an equilibrated power structure (section 4.2.2.1.), despite the fact that European PCs included in our study had higher expertise and resources, which should have determined the power structure. The strategic explanation of the decision to form equilibrated JVs was based on a risk minimization determination animating European PCs' behavior. The strategy consisted in starting JVs with an equilibrated or slightly inferior power structure and then taking control over them once incertitude regarding local partners was reduced and knowledge of the local markets gained (refer to section 4.2.2.1.).

Power shift towards the foreign partner occurred in most JVs studied (5 cases over 8, see section 4.3.3.). Besides foreign PCs' medium-term ownership structure strategy, there were two additional factors explaining the power shift towards European PCs: PCs' asymmetries, and environmental turbulence (refer to sections 4.2.1.5. and 4.5.).

The degree of complexity of organizational politics of our group of JVs was moderate since the number of partners was limited (2 PCs in most cases), and most companies were family owned SMEs with reduced bureaucracies. Consequently, the number of key actors involved in JV management was limited facilitating problem solving and decision-making processes (refer to sections 4.2.1.2. and 4.3.3.1.).

5.2.3.4.1 Relations between parent companies

The literature review demonstrated the positive impact that good relations among PCs have on JV success. Authors such as Kanter (1994), Hamel and Prahalad (1994), as well as Cox and Tung (1997) think that the ability to effectively develop and maintain strategic alliances and multicultural / multilingual relations has become a critical competence, a corporate asset. Kanter (1994) defined it as the "collaborative advantage". An important ingredient for successful relationships is trust. The literature review also evidenced the influence of this variable on JV success, several researchers credit trust with lowering transaction costs in more uncertain environments (Noordewier, John and Nevin 1990), thereby providing firms with a source of competitive advantage (Barney and Hansen 1994). Trust also facilitates long-term relationships between firms (Ganesan, 1994; Ring and Vande Ven, 1992) and is an important component in the success of strategic alliances (Browning, Bayer, and Shelter, 1995; Gulaffi, 1995). Within organizations, trust contributes to more effective implementation of strategy, greater managerial coordination (McAllister, 1995), and more effective work teams (Lawler, 1992).

Our findings corroborate the ones presented in the literature. We found that personal relations, chemistry among PC's managers, and trust played a key role not only at initial JV formation stages as we already mentioned it (see section 4.2.1.5: finding a common understanding, evaluating each partner's contributions, overcoming JV launching production problems, and so on), but also at later critical periods of the ventures' lifecycles such as making important investment decisions, financing the JVs' development, managing cultural differences, setting new goals for JVs that have accomplished their initial objectives, facing market downturns, and so on (section 4.3.3.1.). The relationships that PCs built since their first contacts and through their collaboration years helped them overcoming critical situations, which in their turn strengthened the relationship. An important part of JV success and JV survival is due to the quality of PCs' relationships.

5.2.3.5 Individual and group behavior

Chapter 2 presented a vast view of the human resources management problematic in JVs. Our main interest in this research concerned the JVGIM but we also dedicated some efforts to understand JVs' staffing characteristics.

With respect to the JVGM, section 2.3.2.6.3. presented the specificity of his role, as well as the difficulties associated to JV management in a LDC. According to the literature, JVGMs are confronted to role conflict, ambiguity, and overload. They must cope with the presence of two or more parent organizations, geographic as well as cultural distance, divergent sets of expectations, goals, and desired performance outcomes, multiple and often conflicting stakeholders' objectives, and increased susceptibility to, and greater complexity of, corporate politics (Killing, 1983; Janger, 1980; Schaan and Beamish, 1988; Frayne and Geringer, 1990; Anderson, 1990; Culpán, 1993). Data presented throughout section 4.3.4 confirmed the complexity of the JVGM role and enriched the body of knowledge introducing its characteristics in the European – Argentine setting.

The literature also revealed that JVGMs generally have less autonomy than they want to think they have. JV's board of directors have been found to play a major role in the decision-making process (Beamish and Schaan, 1987). Our findings supported Beamish's and Schaan's (see section 4.3.3. and particularly 23: Board of directors' and GM's roles). The allocation of authority was the result of negotiations during the planning phase of the JV and formally ratified in the JV agreement (refer to sections 4.2.2.1. and 4.2.3.).

This CS did not allow us to corroborate or deny Beamish's findings regarding the relationship between local JV management and JV success (1987). According to the author JVs managed by a local GM perform better than JVs managed by foreign GMs. Our findings on the matter were mixed (see table 29) and the number of JVs analyzed too small.

Regarding JVs' staffing characteristics, we found that the majority of JVs employed a very limited number of foreigners due their lack of local knowledge and to their high cost. The key positions staffed with foreigners were the GM position, the financial director position, and the industrial director position. Commercial positions were staffed by locals with the only exception of BHA, which is a pure commercial JV justifying its staffing strategy. We also found that the need of foreign personnel to support JV activities decreased as the JV developed (Figure 26). Finally, foreign interviewees rated very favorably the education level and qualifications of Argentine employees.

Having introduced conclusions related to JV management issues, we will focus at present on conclusions regarding learning, the Argentine environment, JV performance and key success factors.

5.2.4 Learning

According to the literature, one of the main motivations that companies have to form JVs is related to knowledge transfer and consequently to learning (refer to chapter 2: organizational learning theory). We verified earlier the theory's JV explicatory power (see section 5.2.1.1.1.).

Our main concern regarding learning within our group of JVs was to determine the main elements that foreign and local PCs wanted to learn from their JVs and the way in which knowledge was transferred.

We found two types of learning processes: planned learning, and indirect learning (see section 4.4.). Planned learning resulted from a deliberate learning strategy formulated by PCs, while indirect learning was non premeditated. Regarding planned learning, foreign PCs were interested mostly by local knowledge acquisition. Their long-term objective was to gain a good regional knowledge starting from Argentina, then Mercosur and finally Latin America in order to consolidate their position in the market. Instead, local PCs were interested in technology transfers. Their objective was to integrate state of the art technology in their production processes and to improve their quality through certification. **Technology based learning took place through more formal programs (training programs, visits to foreign PCs, personnel transfer, and so on) than knowledge based learning (osmosis).** Knowledge transfer took place in a more formal manner in the case of technology related knowledge than in the case of local context related knowledge. In other words, in the case of technology, knowledge was transferred through training programs, visits to foreign PCs, temporary personnel exchange, and so on. While in the case of local context knowledge, it was transferred by osmosis, though day-to-day personnel interrelations.

Regarding indirect learning **Argentine managers and PCs benefited more of this type of learning than European managers and PCs** because their management improvement margin was higher, or in other words, they had more to learn from their European partners than the other way around. Foreign PCs enhanced their internationalization competencies improving international project management skills,

negotiation skills, end multicultural management skills. While local PCs improved their quality management skills, their just-in-time systems, their planning processes, their reporting methods, their project management techniques, their organization skills decentralizing and implementing matrix organization structures, discovering financial rigor...(refer to section 4.4.).

Learning took place through JV key players but was also crystallized in the JVs' and the PCs' organization structures improving each actor's knowledge base.

5.2.5 Environment

Internal variables are not the only ones that influence JV operations. According to Austin 1990, socio-economic conditions, macro-economic conditions, cultural conditions, legal conditions, political stability etc. affect considerably all functional areas of JV management as well as overall strategies. The literature review highlighted the importance of external environment influences in the stability of a JV (Harrigan 1984). Moreover, LDCs are considered a more complex and difficult environment in which to manage JVs (Beamish 1985; Austin 1990; Blodgett 1992; Shaker 1994; Fey 1995). Our objective in this research regarding the environment issue was to determine the main difficulties that our group of JVs faced in Argentina.

Not surprisingly, our results regarding environment influence on JVs corresponded to previous findings. The Argentine environment affected considerably JV stability within our group of JVs (see section 4.5.). It played a double and contradictory role on JV development. On one hand, its global improvement during the late 80s and early 90s resulted in important FDI inflows. Most of the 90s were characterized by political stability, economic reforms, macro-economic stability, and growth. Such conditions had a very positive impact on JV formation and development. On the other hand, Argentina remains vulnerable to external shocks and what had to happen sooner or later happened, the economy contracted severely following the 1998 emerging markets crisis rendering uncertain the future of our group of JVs, particularly the ones belonging to the automotive sector.

The Argentine environment was a determinant factor in JV creation but it could also be a determinant factor in JV termination.

5.2.6 Performance

Chapter 2 introduced the debate surrounding JV performance definition and measurement (section 2.3.4.). Researchers argued that financial and objective performance measures presented too many limitations to seize all the aspects involved in JV performance measurement. They also pointed out to the unfeasibility of developing a performance index suited to evaluate all the JVs. Because of the latter, Killing (1983), Shaan (1983), and Beamish (1984) proposed to use a single-item perceptual measure of a parent's satisfaction with a JV's performance (e.g., to what extent has the JV met the expectations of your firm?) arguing that this type of measure provides information regarding the extent to which the JV has achieved its overall objectives. To overcome methodological limitations associated with the subjective or perceptual measure of JV performance, Schaen (1983), and Beamish (1984) proposed collection of data from each parent regarding its level of satisfaction with the JV, arguing that data collection from more than one respondent enhances the measure's reliability. The literature review also noticed high unsatisfactory performance rates, particularly in JVs operating in LDCs. Our main objective in this research was to know how European and Argentine managers evaluated their JVs' performance, as well as their level of satisfaction with the latter.

The definition of JV performance that European and Argentine managers elaborated corresponded to the performance index point of view that was presented in the literature. According to our group of respondents a **performing JV is a JV that reaches the objectives that both PCs fixed in the initial BP**. The criteria that PCs used to evaluate their JVs' performance were financial and objective but also qualitative and subjective (refer to section 4.6).

In general respondents were satisfied with the level of performance that their JVs attained, despite that a crisis was already affecting the region and financial results were not extraordinary, particularly in the automotive industry (see table 29 section 4.6: only one JV presented a medium to low score). The latter contradicts previous findings concerning DCs-LDCs JVs where unsatisfactory performance rates predominated. However, we cannot generalize from our results since the number of cases studied was too small. More studies in the region are necessary to contest or verify our results.

Another indicator of partner satisfaction with JV performance in Argentina is that if PCs were to invest again in Argentina they would opt for the same investment strategy once again. Managers interviewed think that the learning potential offered by JVs is higher and risks are lower than in other investment alternatives (table 30).

There were very little differences in JV performance assessment between PCs, when they existed, they were in the automotive sector, and concerned financial results. This can be attributed to the fact that the automotive sector performance was more affected by the crisis than the agribusiness sector, and consequently, companies belonging to the automotive sector had worse financial results. Moreover, foreign PCs' overall returns are not dependent on local earnings, while local PCs overall returns depend heavily on the JV financial performance (The JV is often the only source of revenues for the local PC). The latter explains why local PCs are often more short-term oriented than foreign PCs.

5.2.7 Key success factors

According to the group of managers that we interviewed the key factors to succeed in European-Argentine JVs in order of importance are:

1. Partner selection, top executives commitment, clarity of each partner's role, communication between partners, frequent result feedback;
2. Past alliance experience, establishing links between top executives, build the relationship, accurate planning, establishing realistic expectations;
3. Financial commitment, share risks and resources;
4. Clarity of objectives, learning from the partner, JVGM selection, clarity of payback time, cultural differences alignment

Our key factor evaluation strategy did not seem appropriate since some respondents had difficulties assessing the items, they considered that they were all very important. Future studies should use other strategies in order to improve the results, for example asking the respondent to give the three most important factors instead of presenting him a list, or ask him to choose the three most important factors from the list.

5.3 JV strategies and tactics for Argentine and European companies

Develop a clear strategic intent. A good JV is a JV that matches two complementary strategic intents. Before getting caught up in the heat of the negotiations, PCs should ensure they have a clear strategic intent in mind.

Give high importance to the PSP. An important part of JV success resides in partner selection since it determines the quality and quantity of resources (financial, technological, human and so on) that will be available to the organization, as well as the type of relation that will exist among PCs. Evaluate several companies when possible, even if you think you found the best candidate right away. Do it at least as a mental hygiene exercise.

Work hard in order to obtain a common understanding. PCs should discuss as soon as possible about as many issues as possible in order to facilitate further JV formation stages and increase JV success. Broad discussions help finding common points of view and eliminating misunderstandings and doubts. Discussions should result in a long letter of intent where most critical points will have been discussed and agreed.

Do not betray the essence of your strategic intent during the negotiation process. Start the negotiation process with a clear view of what you want, and do not make too many important concessions, otherwise the agreement will not be what you really wanted at the beginning, and it is not worth doing the business in such conditions.

Build alliance capabilities. Employ a few experts with proven negotiation skills to form all your alliances (Benteler's model). In that way, the lessons learnt in each case are cumulated in the PC, and ready for use.

Try to anticipate the future in your JV contract. A good JV contract embodies not only the JV spirit, the entry and exit conditions, as well as the business scope but also includes scenarios or JV development possibilities. JVs have to survive to their creators, in that context PCs' succession problems should be integrated in the contract as well as competition and cooperation regulations.

Diversify your risks. Diversify your client portfolio in the internal and external markets in order to face regional crisis.

5.3.1 JV strategies and tactics for Argentine companies

Find a strategic match. Try to understand as much as you can your potential partner's global and regional strategy. Is he pursuing a global strategy (same brands, centralized decision-making, global purchasing, unified R&D, consistent product portfolio and pricing) or a global / local strategy with local and global brands, strong country or regional managers, and regional product development. It is very important to figure how your strategy fit into your partner's one before signing the agreement. Global players may take investment or divestment decisions very fast and the effects of such decisions, particularly divestment ones, may have deadly effects on smaller local companies. A loss of several millions of American dollars can have limited effects on a MNE while it could be dramatic for an Argentine SME. The local company can limit the risks it is taking when forming a JV by increasing its knowledge about its potential partner's present strategy and past behavior.

Be conscious of your limits and ask for the necessary support from the beginning. Several cases in the automotive sector evidenced an unprepared JV launching characterized by production deficiencies, client dissatisfaction, employee frustration and so on. Ask for a realistic time framework to start operations, develop adequate training programs in critical areas such as quality management...

Try to maintain your bargaining power over time. Argentine companies must recognize that they may be vulnerable over the long-term because of inherent power imbalances. Previous research, as well as this research, suggests that global partners are more likely to take control when the balance power shifts. In this context, Argentine companies should to try to protect their most critical assets or resources in order to maintain their bargaining power. The resources may be privileged access to customers, local brands, control over key raw materials, manufacturing capacity, relationships with local actors. The key idea is to ensure that these resources last.

Improve transparency in order to increase your firm's credibility at an international level. Latin American countries are characterized by a culture of doubt while Europe is characterized by a culture of good faith. In this context, Latin American businessmen have to make an effort to increase credibility vis-a-vis foreigners, they have to learn to say things as they are, even if they are no good news, instead of saying the things that they know foreigners want to hear. Correct

information leads to correct action, if action is based on wrong information the results will be deceiving.

Try to understand global companies' way of doing business. PCs' asymmetries are important within DCs-LDCs JVs. Big companies have more complex decision-making processes, communication channels, work procedures, bureaucracies etc., and local companies have to understand the cultural differences ensuing from bigger organizational structures in order to avoid conflicts.

5.3.2 JV strategies and tactics for European companies

Position early. Foreign companies have to act fast because there are only a handful of top potential partners in each sector in Argentina. The faster one enters the market, the better choice one has. Early entrants often have more opportunities to lock up the most promising distribution channels, gain access to attractive production assets, and invest to build the business before competition intensifies.

A 51% or nothing mindset is often not the appropriate one. Having 51% ownership does not guarantee JV control. Effective control has more to do with management structure, ownership of key intangibles such as technology, relationships, knowledge and so on. A temporary local ownership control is a prudent strategy that avoids bad surprises in Latin American countries, particularly if the JV is taking over existent production plants. By adopting this ownership strategy, you limit risks since you will have time to get to know the real situation of the plants integrated in the JV. It takes time to build trust.

Build an organization that can be sustained by real local market possibilities. Develop different scenarios before setting up an infrastructure and always take into account the worst case scenario, because emerging markets are highly volatile, and the JV will have to survive to important market fluctuations. It is better to start with a small structure and develop from there.

Be extremely cautious with market forecasts. Study the regional economic history and its structural problems and do not be lured by a few years of continuous prosperity.

Try to understand local companies' way of doing business. PCs' asymmetries are important within DCs-LDCs JVs. Local companies often lack of resources particularly financial resources. Understand

your partner weaknesses and give him time and support in order to help him overcome them.

5.4 Limitations and future research

The methodology used in this research as well as its field of application pose several limitations to this work:

- **Our results cannot be generalized** to European-Argentine JVs because on one hand, CS research does not allow statistical generalization (refer to chapter 3), and on the other, our study included only two activity sectors, automotive and agribusiness. Consequently we cannot say that our findings apply to JVs in other sectors or to all JVs in the sectors studied or to JVs involving other European countries.
- We favored a systemic view of JVs instead of bounding the research to the study of a limited number of variables. By doing so, **we inevitably privileged some aspects to the detriment of others** (for example, financial aspects of JVs were underestimated). However, it was not possible to extend the interview guide since it was already quite long, and one hour and a half to two hours of interview was the maximum we could ask to interviewees. The latter reflects the cost that we had to pay for the trade off between studying deeply a few variables or taking into account many variables but in a more superficial way.
- Following resource constraints, we applied a **one-person one time data collection** to analyze a phenomenon that should be traced over time.

Further research is needed in order to verify our findings and to update knowledge involving JVs including emerging market companies and particularly Latin American ones. The research limitations mentioned above should be used as the starting point for future research. It would be interesting to see if our findings can be generalized to other sectors and other countries in the region by using larger JV samples. It would also be interesting to focus on a few variables to deepen our understanding of their influence in JV development (for example culture). Latin American countries are not homogeneous and further studies would help evidencing the existence of different regional profiles for example at a cultural level. A problematic that would be interesting to explore is to know if there are different cultural profiles in

the region and if there are what are their characteristics? Is there a Mercosur cultural profile? An Andean cultural profile? A Caribbean cultural profile? A Central American cultural profile? If these profiles exist, what are their characteristics in terms basic business values? It would also be interesting to examine the differences that may exist between European-Argentine (or Latin American) JVs, as well as American-Argentine (or Latin American) JVs, as well as Asian-Argentine (or Latin American) JVs.

The economic and politic context of several Latin American countries has changed a lot recently and some countries like Mexico, Brazil, Argentina and Chile have experienced a boom in FDI (UNCTAD 1997). The number of alliances of all kinds has increased (Chudnovsky 1994, América Economía 1994, UNCTAD 1997, Porta 1997, Chudnovsky 1997, Adarkar et al. 1997, Hinkelman 1998), and justifies a bigger effort to study and understand the characteristics of these partnerships. This work has contributed, at least in a limited way, to actualize and expand the body of knowledge regarding JVs in the region, and we hope that it will motivate a new wave of regional research.

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Appendices

Appendix 1: Interview guide

Semi-directive interview guide for foreign partners²⁹

• Remind the study's objective; • Remind interview duration (1h00 to 1h30); • Ask the person interviewed to refer to this JV and to specify when talking about other JVs; • Remind the person interviewed that all the information will be treated confidentially;	• If wished by the informant, the names (of persons and firms) will remain anonymous; • Specify that interviews will be recorded if there is no inconvenient. • Remind that results will be sent to them before any publication in order to obtain their approval

General Information

JV's name _____

Date of interview _____

Person interviewed _____

Position in the firm _____

Number of years in the position _____

Have you participated in the JV's creation process Yes ☐ No ☐

JV's age _____

Number of experience years of your company with JVs?

Less than 3 ☐ 3 to 5 ☐ more than 5 ☐

Number of JVs created till now?

More than 5 ☐ 5 to 10 ☐ 11 to 25 ☐

I. JV's formation context

1. How was born the idea to form a JV with an Argentine partner? What were the main stages of its creation? What were the main difficulties you encountered in the process?

²⁹ Three interview guides were developed, one for the local PC, one for the foreign PC and the last one for the JVGM. The three guides had the same content, only the form changed to adapt it to the interlocutor.

Stakeholders

2. At the moment where the JV's creation was discussed, what was the stakeholders' attitude regarding the creation of the JV in Argentina with a local partner. (by stakeholders we mean: shareholders, board of directors, managers, clients, suppliers, financial institutions etc.) Was there consensus about the decision or was there rather a conflictive situation? If the situation was conflictive, what were the main problems?
3. How were these problems solved?

Motivations

4. What were your major motivations to form the JV at the moment where its creation was discussed?

Please give a note to each factor using the following scale:

1 = *Very important*

2 = *Important*

3 = *Neutral*

4 = *Little importance*

5 = *No importance*

	1	2	3	4	5
Lower total capital investment.....	☐	☐	☐	☐	☐
Faster entry to local market and payback.....	☐	☐	☐	☐	☐
Lower cost by using comparative advantage of each Partner.....	☐	☐	☐	☐	☐
Access to Latin American markets (Mercosur).....	☐	☐	☐	☐	☐
Defensive JV to reduce competition.....	☐	☐	☐	☐	☐
Offensive JV to increase cost and/or lower market share of a third company.....	☐	☐	☐	☐	☐
Benefit from local partner's technical know-how.....	☐	☐	☐	☐	☐
Benefit from local partner's management know-how.....	☐	☐	☐	☐	☐
Integrate at local network (key national contacts).....	☐	☐	☐	☐	☐
Access to raw materials.....	☐	☐	☐	☐	☐
Access to labor.....	☐	☐	☐	☐	☐
Access to capital.....	☐	☐	☐	☐	☐
Access to distribution channels.....	☐	☐	☐	☐	☐
Benefits from brand recognition.....	☐	☐	☐	☐	☐

Indicate and note any other motivation you had

_____ ☐ ☐ ☐ ☐ ☐

5. Have there been any changes in your initial motivations due to the JV's development, or have the motivations remain stable? If they have changed, can you tell us how and why?

Partner selection process?

6. What were the main stages and the characteristics of the partner selection process?
7. How much time was necessary to accomplish this stage?
8. What were the main criteria you used to search and evaluate potential partners?
9. How many partners were formally evaluated?
10. In your opinion, what is the importance of the partner selection for the JV's success?
11. Do you think that your firm characteristics are similar to the ones of your partner, or are they rather different and complementary?
12. What lessons did you draw regarding the selection of a local partner in this JV?
13. If you were to give an advice concerning the selection of an Argentine JV partner to an European that wants to establish a JV in Argentina, what would it be?

Strategic intent

14. At the beginning of the JV's formation stage, each partner develops individually a strategic intent. Did you develop a clear strategic intent before starting the negotiations with your partner, or did you decide to form the JV to take advantage of the opportunity the market was offering in that moment?
15. Later in the same formation stage, both partners have to negotiate in order to reach an agreement concerning the JV's strategic intent. A compromise that offers mutual benefits has to be achieved. What were the negotiation process characteristics in terms of the most important elements to negotiate, your partner's attitude towards problem resolution, the time needed to end the negotiations...

16. In your opinion, what are the most important factors to negotiate successfully with Argentine managers?

Relation

17. Evaluating the business relation

Please give a note to each factor using the following scale:

1 = *Completely agree*

2 = *Agree*

3 = *Neutral*

4 = *Disagree*

5 = *Completely disagree*

	1	2	3	4	5
Our gains from the alliance are mutual.....	☐	☐	☐	☐	☐
Our relationship is based on collaboration.....	☐	☐	☐	☐	☐
Our relationship is based in mere exchange.....	☐	☐	☐	☐	☐
The value of the alliance is apparent to our customer.....	☐	☐	☐	☐	☐
This alliance offers a competitive advantage.....	☐	☐	☐	☐	☐
The driving forces of the companies are complementary...	☐	☐	☐	☐	☐
The operations, risks and rewards are balanced.....	☐	☐	☐	☐	☐
As alliance partners we always explore new opportunities... together.	☐	☐	☐	☐	☐
The objectives are clearly defined.....	☐	☐	☐	☐	☐
There is an excellent clarity of purpose.....	☐	☐	☐	☐	☐
The roles of each partner are clearly understood.....	☐	☐	☐	☐	☐
The alliance has a shared vision.....	☐	☐	☐	☐	☐
We develop shared goals that are measurable.....	☐	☐	☐	☐	☐
Top executives from both companies have met and..... support the goals of the alliance.	☐	☐	☐	☐	☐
We have excellent channels of communications at all levels.	☐	☐	☐	☐	☐
Key issues are raised early and acted on promptly.....	☐	☐	☐	☐	☐
We have a high degree of trust.....	☐	☐	☐	☐	☐
There is continuity in the players.....	☐	☐	☐	☐	☐
There is commitment and support at all levels.....	☐	☐	☐	☐	☐

18. What was the role played by personal relations between the initiators of the JV at the moment of creating it? *
19. Have personal relations helped to overcome a crisis in the JV?
20. Which are the actors that maintain the most critical relations in the JV?
21. In your opinion, what is the role played by trust in the JV's success?
22. What have been the most critical stages in the JV's development process?

Cultural differences

23. A JV gathers two or more partners coming from different origins. What are the most obvious cultural differences between you and your partner? (cultural differences can have firm, industrial or national origins)
24. What has been the role played by cultural differences in the creation process and in the management process of the JV? Have they affected the JV's functioning? Have they been a problem source? a blocking factor? At what levels do you find this cultural problems, how do they manifest, what is their origin in your opinion?
25. What have you done to reduce these cultural differences? (Training, organize visits to parent headquarters to teach other work methods...)
26. If you were to form another JV in Argentina, what would you do or what would you avoid to do regarding multicultural management?

JV contract

	1	2	3	4	5
27. In your opinion, establishing a JV contract is.....	☐	☐	☐	☐	☐
(same scale than in 4)					
28. What were the main aspects that you wanted to clearly appear in the contract you sign with your partner? In your opinion, what are the characteristics of a good JV contract?					

29. Do you think that a JV contract should be extremely detailed or should it regulate only the main aspects?

30. How has been established the JV's capital structure? (50-50 or other structure). Do you use the same strategy in all your JVs or is it different in each case? Has there been any change in the capital structure during the JV's life cycle? If yes, why?

31. How is the JV's board of directors composed? (how many members of each parent company)

JV general manager, managers and political aspects

32. What is the firm origin of the JV's GM?

33. In your opinion, what are the characteristics a good JV GM should have to maximize its chances of succeeding the management of an Argentine - European JV?

34. What is the proportion of foreign executives working in the JV?

35. In your opinion, which are the positions that foreign executives should have in the JV?

Planning

36. How is the JV's strategic planning done? Who is in charge of the process put an X in the proposition that best matches your situation.

The European parent company independently.....	☐
The European parent company with some input from its local partner.....	☐
The local parent company independently.....	☐
The local parent company with some input from its foreign partner.....	☐
The joint venture independently.....	☐
The JV with input from the foreign parent company.....	☐
The JV with input from the local parent company.....	☐
The JV with both partners' input.....	☐

Control

37. How have you shared the control of the JV activities? Does each partner control some specific areas in function of its competencies or is there a global control by each partner?

38. Is there a partner who has more control over strategic activities and the other over operational activities?

39. How are the following decisions taken:

- 1 = The European parent company independently
 2 = The European parent company with some input from its local partner
 3 = The local parent company independently
 4 = The local parent company with some input from its foreign partner
 5 = The joint venture independently
 6 = The JV with input from the foreign parent company
 7 = The JV with input from the local parent company
 8 = The JV with both partners' input

	1	2	3	4	5	6	7	8
Fixing prices.....	☐	☐	☐	☐	☐	☐	☐	☐
Establishing JV's policies.....	☐	☐	☐	☐	☐	☐	☐	☐
Product development.....	☐	☐	☐	☐	☐	☐	☐	☐
Production scheduling.....	☐	☐	☐	☐	☐	☐	☐	☐
Conceive the production process.....	☐	☐	☐	☐	☐	☐	☐	☐
Establish quality control standard.....	☐	☐	☐	☐	☐	☐	☐	☐
Replace top executives.....	☐	☐	☐	☐	☐	☐	☐	☐
Establish sales objectives.....	☐	☐	☐	☐	☐	☐	☐	☐
Estimate costs (forecast).....	☐	☐	☐	☐	☐	☐	☐	☐
Invest.....	☐	☐	☐	☐	☐	☐	☐	☐

Learning

40. What are the principal competencies you wanted to acquire by forming a JV in Argentina?

41. How do you manage the knowledge transfer from the JV to the parent company?

Environment

42. What role has the Argentine environment played in the JV's development?

JV's performance / results

43. In your opinion, what is a performing JV?

44. Which are the criteria you use to evaluate the JV's performance?

45. Are you satisfied with the JV's performance?

46. If you were to achieve the same objectives that you had before forming this JV, would you once again try to develop a JV or would you try another strategy, like investing alone etc.

Key success factors

47. Please give a note to each factor using the following scale:

1 = *Very important*

2 = *Important*

3 = *Neutral*

4 = *Little importance*

5 = *No importance*

	1	2	3	4	5
Partner selection.....	☐	☐	☐	☐	☐
Past alliance experience.....	☐	☐	☐	☐	☐
Top executives commitment.....	☐	☐	☐	☐	☐
Clarity of the payback time.....	☐	☐	☐	☐	☐
Clarity of each partner's role.....	☐	☐	☐	☐	☐
Objectives' clarity.....	☐	☐	☐	☐	☐
Learning from the partner.....	☐	☐	☐	☐	☐
Establishing solid links between top executives.....	☐	☐	☐	☐	☐
Build the relationship.....	☐	☐	☐	☐	☐
Financial commitment.....	☐	☐	☐	☐	☐
Accurate planning.....	☐	☐	☐	☐	☐
Establishing realistic expectations.....	☐	☐	☐	☐	☐
Cultural differences alignment.....	☐	☐	☐	☐	☐
Share risks and resources.....	☐	☐	☐	☐	☐
Communication between partners.....	☐	☐	☐	☐	☐
Frequent result feedback.....	☐	☐	☐	☐	☐
JV's General manager selection.....	☐	☐	☐	☐	☐

Indicate and note any other key success factors that you may have

	1	2	3	4	5
_____	☐	☐	☐	☐	☐
_____	☐	☐	☐	☐	☐
_____	☐	☐	☐	☐	☐

Interview duration _____

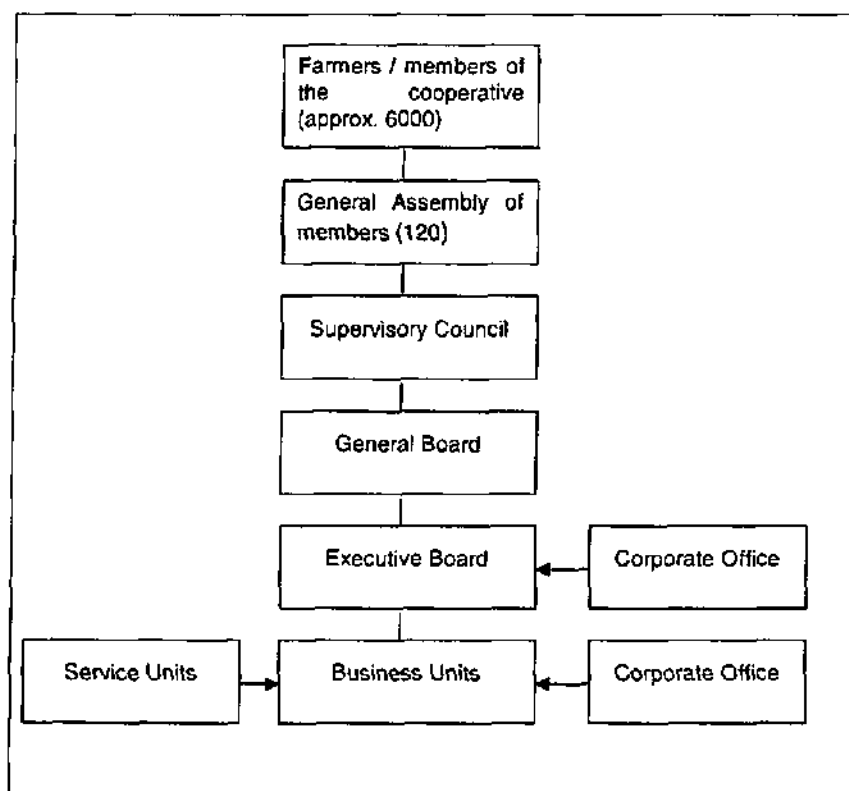
Appendix 2: ITIM list rating countries according to Hofstede's dimensions.

	Scores on the five dimensions*				
Country	PDI	IDV	MAS	UAV	LTO
Arab World**	80	38	52	68	
Argentina	49	46	56	86	
Australia	36	90	61	51	31
Austria	11	55	79	70	
Belgium	65	75	54	94	
Brazil	69	38	49	76	65
Canada	39	80	52	48	23
Chile	63	23	28	86	
China	80'	15'	55'	40'	114
Colombia	67	13	64	80	
Costa Rica	35	15	21	86	
Czech Republic	35'	60'	45'	60'	
Denmark	18	74	16	23	
East Africa**	64	27	41	52	25
Ecuador	78	8	63	67	
El Salvador	66	19	40	94	
Finland	33	63	26	59	
France	68	71	43	86	
Germany	35	67	66	65	31
Great Britain	35	89	66	35	25
Greece	60	35	57	112	
Guatemala	95	6	37	101	
Hong Kong	68	25	57	29	96

Hungary	19'	55'	79'	83'	
India	77	48	56	40	61
Indonesia	78	14	46	48	
Iran	58	41	43	59	
Ireland	28	70	68	35	
Israel	13	54	47	81	
Italy	50	76	70	75	
Jamaica	45	39	68	13	
Japan	54	46	95	92	80
Malaysia	104	26	50	36	
Mexico	81	30	69	82	
Netherlands	38	80	14	53	44
New Zealand	22	79	58	49	30
Norway	31	69	8	50	
Pakistan	55	14	50	70	
Panama	95	11	44	86	
Peru	64	16	42	87	
Philippines	94	32	64	44	19
Portugal	63	27	31	104	
Russia	95'	47'	40'	75'	
Singapore	74	20	48	8	48
South Africa	49	65	63	49	
South Korea	60	18	39	85	75
Spain	57	51	42	86	
Sweden	31	71	5	29	33
Switzerland	34	68	70	58	
Taiwan	58	17	45	69	87
Thailand	64	20	34	64	56

Turkey	66	37	45	85	
United States	40	91	62	46	29
Uruguay	61	36	38	100	
Venezuela	81	12	73	76	
West Africa**	77	20	46	54	16
* PDI=Power Distance, IDV=Individualism, MAS=Masculinity, UAV=Uncertainty Avoidance, LTO=Long-Term Orientation					
** "Arab World" = Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, United Arab Emirates; "East Africa" = Ethiopia, Kenya, Tanzania, Zambia; "West Africa" = Ghana, Nigeria, Sierra Leone					
Scores indicated with ' are estimated.					

Source: <http://home.wxs.nl/~itim/>

Appendix 3: AVEBE's organization chart

Source: AVEBE internal documents

Appendix 4: Benteler-RE's contact and document summary forms

CONTACT SUMMARY FORM (Benteler)

Interview with	Place	Date
Dr. Joachim Rieger Dr. jur., Dipl.-Ing. Prokurist	Benteler's head office (Paderborn, Germany)	07.12.98
Interview details		
<i>Interviewee background</i>		
Dr. Rieger is from Germany. He is a mature man who achieved a high level education. He has worked for 28 years for Benteler in different positions, and is currently responsible of the company's internationalization process, which started several years ago. He was part of the team that negotiated the Argentinean JV. His experience developing JVs around the world is considerable.		
<i>Interview</i>		
Dr. Rieger was very distrustful at the beginning of the interview. He started the interview with a set of questions regarding my background, my motivations to undertake a Ph.D., the thesis topic, the name of the other companies participating in the research etc. Hopefully barriers fell as the interview went on, and Dr. Rieger ended talking openly, he even gave me some internal documents containing sensitive information. He represented the foreign partner point of view. The interview as well as the transcription were in English. We were interrupted shortly a couple of times during the interview. Interview duration: 2h00 Interview transcription: 03.01.99 / Transcription time: 6h00.		

Document summary form

Site: Benteler (Paderborn, Germany)

Date received: 07.12.98

Name or description of document

Benteler Automotive (Company general information)

Strategische Überlegungen zur Globalisierung

Globalisierung des Geschäftsbereiches Benteler Automotive

Event or contact, if any, with which document is associated

Interview with Dr. Rieger.

Significance or Importance of document

General information concerning the foreign partner and its JVs (Products, clients, JVs, procedure to follow in order to form the JV).

The information will be useful to build the JV description on chapter 3, and also to complete the interview (to use in chapter 4: analysis).

See also: <http://www.benteler.de/engl/index.htm>

CONTACT SUMMARY FORM (Grupo RB)

Interview with	Place	Date
Ing. H. Muhlmann Industrial director	His office (Buenos Aires, Argentina)	08.10.98
Interview details		
<i>Interviewee background</i> Ing. Muhlmann is from Argentina, he has a technical background, and started to work with Grupo RB in 1990 as a GM of one of the companies that the group acquired during the sector restructuring period. In 1993 he changed of position and directed a company that formed the first JV (with an American partner). The interview was very interesting because Ing. Muhlmann was the industrial director for the whole group, and therefore was responsible of the industrial matters for all the companies. He participated as a negotiator in all the JVs' creation processes including Benteler-RB, which gave him the possibility to confront the different experiences. He has international exposure and a very good knowledge of the automotive industry.		
<i>Interview</i> Mr. Muhlmann offered a very interesting historical perspective of the automotive sector, as well as of the JV. He represented the local partner point of view. The interview as well as the transcription were in Spanish. We had no interruptions during the interview. Interview duration: 2h30 Interview transcription: 08.10.98 / Transcription time: 6h30.		

Document summary form

Site: Grupo RB head office (Buenos Aires)

Date received by mail: 15.10.98

Name or description of document

Grupo RB (Company general information)

Event or contact, if any, with which document is associated

Follow up of interview with Ing. H. Muhlmann.

Significance or importance of document

General information concerning the local partner and its JVs (Products, clients, JVs, factories, production awards).

The information will be useful to build the JV description on chapter 3.

CONTACT SUMMARY FORM (Benteler-RB)

Interview with	Place	Date
Ing. Jaime Fenes JVGM	Benteler-RB's head office (Buenos Aires, Argentina)	18.09.98
Interview details		
<i>interviewee background</i> Ing. Fenes is Argentinean and has a technical background (Production area: mechanical and electric engineer). He works for Grupo RB since 1987. He started working for Ligett (An industrial company acquired by Grupo RB) in Cordoba, and was then transferred as the JVGM to Buenos Aires. He has little international experience. He is very open minded, and sensitive to cultural differences. Ing. Fenes has been working as a JVGM for 2 years. Nevertheless he did not participate to the JV creation process, he arrived on board once the JV was settled.		
<i>Interview</i> Ing. Fenes was very generous with his time during the interview, he had a relaxed attitude, and gave a detailed answer to every question. He is the informant that spent the most time thinking, and answering to the written questionnaire. Despite his technical background, Ing. Fenes has developed human approach when analyzing problems. He gave me good contacts at the local and foreign PCs. He represented the JV point of view. The interview as well as the transcription were in Spanish. We were shortly interrupted in two occasions. Interview duration: 2h15 Interview transcription: 20.09.98 / Transcription time: 8h00.		

Document summary form

Site: German – Argentinean Chamber of Commerce (Buenos Aires)

Date picked up: First week of September 1998.

Name or description of document

Press article "RB estrena socio alemán y va por más", El cronista, Monday 19.02.96.

Event or contact, if any, with which document is associated

Interview with Mr. Olivier Parche.

Significanca or importance of document

General information concerning the JV (The deal, investment size, PCs, clients).

The information will be useful to build the JV description on chapter 3.

Appendix 5: Treymi's contact and document summary forms

CONTACT SUMMARY FORM (Trèves)

Interview with	Place	Date
Dr. Guillaume Trèves Directeur Général Adjoint Treymi's Vice President	Trèves head office (Paris, France)	17.11.98
Interview details		
<i>Interviewee background</i> Dr. Trèves is a young man (30s) from France, he has a high level education (Scientific background / Ph.D. in Political Sciences). He worked in the financial sector before entering into the family company management. He has been in charge of the company's international development for 6 years, and participated actively in the Argentinean JV development. He has good international experience.		
<i>Interview</i> I had the impression that Dr. Trèves retained some interesting information. He represented the JV and the foreign PC perspectives. The interview as well as the transcription were in French We only had one short interruption during the interview. Interview duration: 2h00 Interview transcription: 19.11.98 / Transcription time: 4h00.		

Document summary form**Site:** Trèves' head office (Paris)**Date picked up:** 17.11.98.***Name or description of document***

Trèves (Company general information)

Event or contact, if any, with which document is associated

Interview with Dr. Trèves.

Significance or importance of document

General information concerning the company (PC history, turn over, number of employees, products, clients, geographical presence etc.).

The information will be useful to build the JV description on chapter 3.

CONTACT SUMMARY FORM (TreyMi)

Interview with	Place	Date
Mr. Ricardo Rocca JVGM	TreyMi's head office (Buenos Aires, Argentina)	09.09.98
Interview details		
Interviewee background		
Mr. Rocca is a middle aged man from Argentina, he has a business administration background with a national profile. He worked as Mithra's (The local PC) General Manager before accepting the JVGM position. He is TreyMi's second GM, the first one failed with his mission.		
Interview		
The office was near the production site and there was a lot of noise. I had some problems later on with the interview transcription. Mr. Rocca gave short answers to the questions. He came back to the precedent discussion topic several times. He had some difficulties understanding the interview questionnaire, I had to explain each question. Answers were not always focused on the matter, I had to repeat the question or part of it in order to obtain the adequate information. He promised to send me additional information regarding the local partner and the JV. Obtaining the information was harder than expected, I had to call once a day for several weeks to get the documents. Finally, I obtained an appointment to pick up the documents, but had to wait for two hours until they were ready. He represented the local partner point of view as well as the JVGM point of view. He did not wanted me to talk to another person representing the local side. The interview as well as the transcription were in Spanish. We had three short interruptions. Interview duration: 1h45 Interview transcription: 10.09.98 / Transcription time: 10h40.		

Document summary form

Site: Treymi's head office (Buenos Aires)

Date picked up: 09.09.98

Name or description of document

Press article "Sigue el desembarco autopartista", El cronista, Thursday 14.11.96.

Event or contact, if any, with which document is associated

Interview with Mr. Ricardo Rocca.

Significance or importance of document

General information concerning the JV (The deal, investment size, PCs, clients).

The information will be useful to build the JV description on chapter 3.

Appendix 6: Rieter's contact and document summary forms

CONTACT SUMMARY FORM (Rieter Switzerland)

Interview with	Place	Date
Mr. Rudolf Hürlimann Senior Vice President Head Planning, Strategic projects and overseas	Rieter's head office (Winterthur, Switzerland)	04.12.98
Interview details		
<i>Interviewee background</i> Mr. Hürlimann is Swiss, he is a mature man who started his career in the finance and controlling area in the financial sector. He shifted to the automotive industry 30 years ago. Mr. Hürlimann has a strong international experience, he has traveled world wide to expand Rieter's activities, and has developed the South American projects.		
<i>Interview</i> Mr. Hürlimann was very cooperative and showed great interest to read the research results since it includes the vision of all the JV actors (Both PCs and the JV). He gave very interesting insights regarding the JV creation process. He represented the foreign partner point of view. The interview as well as the transcription were in English. We had no interruptions during the interview. Interview duration: 2h15 Interview transcription: 29.12.98 / Transcription time: 4h30.		

CONTACT SUMMARY FORM (Caimari S.A.)

Interview with	Place	Date
Mr. Francisco Caimari President	His private office (Buenos Aires, Argentina)	21.08.98
Interview details		
<i>Interviewee background</i>		
I did not go to the factory for the interview but to an office in front of the University where I was working. Mr. Caimari is the company's President, he is a mature man that has seen everything of Argentina's automotive history. He has worked with Swiss managers for a long time (Caimari has the Swiss production license since 1982).		
<i>Interview</i>		
Mr. Caimari was very distrustful at the beginning of the interview but hopefully barriers fell as the interview went on, improving the interaction, and the quality of the information exchanged. At the end of the interview, Mr. Caimari introduced me to his son, Mr. Juan Caimari, responsible of the technical department. We kept in touch, and he gave me complementary information regarding their company. He represented the local partner point of view. The interview as well as the transcription were in Spanish. We had no interruptions during the interview. Interview duration: 2h30 Interview transcription: 01.10.98 / Trencription time: 5h30.		

Document summary form

Site: Mr. Caimari's private office (Buenos Aires, Argentina)

Date picked up: 23.10.98.

Name or description of document

Caimari S.A. (Company general information)

Event or contact, if any, with which document is associated

Interview follow up with Mr. Juan Carlos Caimari

Significance or importance of document

Information regarding the local partner.

The information will be useful to complete the data obtained during the interview, and to build the JV description on chapter 3.

CONTACT SUMMARY FORM (Riatar Argentina)

Interview with	Place	Date
Mr. Peter Arnold JVGM	Riatar's head office (Cordoba, Argentina)	29.09.98
Interview details		
<i>Interviewee background</i> Mr. Arnold is Swiss, he studied economics in Switzerland, worked for Ernst and Young, then had an experience at the Red Cross in the financial department, and finally started with Riatar Switzerland. He is young, and was working as the JVGM for only 8 months. He has not been in Argentina for long but has a certain knowledge of the Latin American context (He spent some time in Ecuador studying Spanish). According to Mr. Arnold himself, he was rather young for the JVGM position. Mr. Arnold is the second JVGM and was not involved in the JV creation process, therefore his knowledge on the matter was very limited. His relationship with the local partner was not as close as the one his predecessor had.		
<i>Interview</i> Mr. Arnold had some difficulty with the evaluative questions. He judged that everything was "<i>very important</i>". While answering to the questions, he whispered "everything is important, everything is important" giving very high notes to all the items. He represented the JV point of view. The interview as well as the transcription were in Spanish. We were not interrupted during the interview. Interview duration: 2h00 Interview transcription: 29.09.98 / Transcription time: 5h00.		

Document summary form

Site: Rieter Argentina (Cordoba)

Date received or picked up: Rieter, 29.09.98

Name or description of document

Press articles, Monday 07.09.98 "Rieter Argentine obtiene certificación EAQF-94" (La voz del interior); "El silencio es confort" (La voz del interior).

General documents about Rieter (Company portrait 1998, Rieter Holding annual report 1977).

Event or contact, if any, with which document is associated

Interview with Mr. Arnold.

Significance or importance of document

There is some complementary information regarding the JV creation and some data about the partners in the press articles. The company general documents have general information, I should ask for more recent reports at the headquarters in Switzerland.

The information will be useful to complete the data obtained during the interview, and to build the JV description on chapter 3.

Additional information for the company presentation section:
<http://www.rieter.ch>

Appendix 7: Base'a contact and document summary forms

CONTACT SUMMARY FORM (Ascom Cea)

Interview with	Place	Date
Mr. Francesco Gastaldi President of the foreign PC	ASCOM CEA's head office (Torino, Italy)	27.11.98
Interview details		
<i>Interviewee background</i>		
Mr. Gastaldi is an Italian middle-aged man. He played an active role in the JV creation process as the owner of the local PC. He has little international background.		
<i>Interview</i>		
Mr. Gastaldi was very friendly, he took the time for the interview.		
He represented the JV's, and the foreign partner's perspectives.		
The interview was in Italian but it was transcribed in French.		
We were not interrupted during the interview.		
Interview duration: 2h30		
Interview transcription: 02.12.98 / Transcription time: 6h30.		

CONTACT SUMMARY FORM (Inmebe)

Interview with	Place	Date
Ing. Ivano Badiali Local PC General Manager	Inmebe's head office (Cordoba, Argentina)	26.10.98
Interview details		
<i>Interviewee background</i>		
Mr. Badiali is Argentinean, meddle-aged, and has a technical background (Mechanics). He worked for Fiat Argentina for many years, and then started his own company supplying Fiat. He has a very good knowledge of the national automotive industry but lacks of international experience. Mr. Badiali played an active role in the JV creation process, since he owns the local PC.		
<i>Interview</i>		
Mr. Badiali participated with a lot of interest and enthusiasm to the interview. He was generous with his time, and explanations. He had some difficulties answering to the written part of the questionnaire, I had to explain him each question. He represented the JV and the local partner perspectives. The interview as well as the transcription were in Spanish. We had no interruptions during the interview. Interview duration: 2h00 Interview transcription: 29.10.98 / Transcription time: 4h30.		

Document summary form

Site: Inmeba (Cordoba)

Date picked up: 26.10.98.

Name or description of document

Inmeba (Company general information)

Event or contact, if any, with which document is associated

Interview with Mr. Badiali.

Significance or importance of document

General information concerning the company (PC history, turn over, number of employees, products, clients, geographical presence etc.).

The information will be useful to build the JV description on chapter 3.

Appendix 8: EURMON's contact and document summary forms

CONTACT SUMMARY FORM (Bodegas Hispano Argentinas)

Interview with	Place	Date
Mr. Richard Del Rincon JVGM	My office (University of CEMA, Buenos Aires)	11.09.98
Interview details		
<i>Interviewee background</i>		
Mr. Del Rincon is a young and dynamic manager (Early 30s). He studied business administration in Spain, and then got an MBA at the London Business School. He worked for Unilever, for Spain's biggest wine group, and nowadays for Arco Bodegas Unidas (Spain's second biggest wine group). He did not participate to the JV creation process.		
<i>Interview</i>		
Mr. Del Rincon had a straight forward speech, he anticipated many questions, and gave a direct, clear and transparent answer to all of them.		
He represented the foreign PC and the JV points of view.		
The interview as well as the transcription were in Spanish.		
We were not interrupted during the interview.		
Interview duration: 2h00		
Interview transcription: 15.09.98 / Transcription time: 8h10.		

Company general information: http://www.arcobu.com/home_i.htm

Appendix 9: BHA's contact and document summary forms

CONTACT SUMMARY FORM (Norton)

interview with	Place	Date
Dr. Jorge J. Boveri Chief Operating Officer Subgerente General	Norton's head office (Buenos Aires, Argentina)	16.10.98
Interview details		
<i>Interviewee background</i>		
Dr. Boveri was a mature man, he started to work with Norton in 1989, and was promoted as "Subgerente General" in 1996. He participated to BHA creation process, and also to the JV that the company formed in China.		
<i>Interview</i>		
Dr. Boveri was distrustful at the beginning of the interview but he opened as the discussion went on. He talked extensively. In some occasions his answers were not 100% related to the questions, and I had to redirect his attention to the real question. He had an extensive knowledge regarding JVs (Practical and theoretical). He was the only interviewee that quoted scientific papers, and that knew what was going on in the academic world. He highlighted JV's limits in several occasions, he was skeptical regarding JVs in the long-term.		
He represented the local PC point of view.		
The interview as well as the transcription were in Spanish.		
We were not interrupted during the interview.		
Interview duration: 2h15		
Interview transcription: 17.10.98 / Transcription time: 4h40.		

Document summary form

Site: Norton's head office (Buenos Aires, Argentina)

Date received: 16.10.98

Name or description of document

Press articles concerning BHA: "Un mercado rico en novedades", Revista Magazine, 23.03.97; "Bodegueros..." La Nacion, 05.01.1997.

Promotional documents presenting the products.

Event or contact, if any, with which document is associated

Interview with Dr. Boveri.

Significance or importance of document

General information concerning the company's products, and the JV deal details.

The information will be useful to complete the data obtained during the interview, and to build the JV description on chapter 3.

Additional information for the company presentation section:
<http://www.norton.com.ar/>

Appendix 10: AVEBE's contact and document summary forms

CONTACT SUMMARY FORM (AVEBE)

Interview with	Place	Date
Mr. Win H. Dethmers Controller	Head Office (Veendam, the Netherlands)	02.12.98
Interview details		
<i>Interviewee background</i>		
Mr. Dethmers is a Dutch middle-aged man. His career started at AVEBE, and he is still working for the company. He studied economics, and has always worked in the Netherlands. He played an active role in the JV creation process, and is currently deeply involved in its control.		
<i>Interview</i>		
Mr. Dethmers was distrustful at the beginning of the interview but he became more cooperative once he knew the purpose of the research. He took the time to answer to all the questions, and gave many details and explanations in order to communicate a correct image of the JV.		
Mr. Dethmers was the only informant for this JV, he represented all the JV actors' points of view (local PC, foreign PC, and JV).		
The interview as well as the transcription were in English.		
We were not interrupted during the interview.		
After more than two hours of interview, we continued our discussion having lunch.		
Interview duration: Approx. 3 hours		
Interview trancription: 21.12.98 / Transcription time: 7h50.		

Document summary form

Site: AVEBE (Veendam, the Netherlands)

Date received: 02.12.98

Name or description of document

General documents about AVEBE (Annual report 1996-1997, other promotional material).

AVEBE Argentina S.A. (Business plan)

Event or contact, if any, with which document is associated

Interview with Mr. Dethmers

Significance or importance of document

General information concerning the company (PC history, turn over, number of employees, products, clients, geographical presence, organization charts etc.). JV BP details.

The information will be useful to complete the data obtained during the interview, and to build the JV description on chapter 3. It will also be useful for the analysis chapter.

Additional information for the company presentation section:
<http://www.avebe.com/>

Appendix 11: Pescargen's contact and document summary forms

CONTACT SUMMARY FORM (Pescargen)

Interview with	Place	Date
Mr. Ricardo Collazo Perez Vice-President	Pescargen's head office (Buenos Aires, Argentina)	20.10.98
Interview details		
<i>Interviewee background</i>		
Mr. Collazo is a Spanish young manager. He participated in the JV creation process, and currently plays an active role in its management.		
<i>Interview</i>		
Mr. Collazo was not very comfortable with the interview, I had the impression that he disliked public relations activities. His answers were very short, and had some difficulties understanding some concepts of the discussion.		
He represented the foreign PC, and the JV points of view.		
The interview as well as the transcription were in Spanish.		
We were not interrupted during the interview.		
Interview duration: 1h00		
Interview transcription: 23.10.98 / Transcription time: 3h00.		

CONTACT SUMMARY FORM (Pescargen)

Interview with	Place	Date
Lic. Hugo Villar Director	Pescargen's head office (Buenos Aires, Argentina)	16.09.98
Interview details		
Interviewee background Mr. Villar is an Argentinean mature man. He was very reserved regarding his other activities. He participated in the JV creation process, and currently plays an important role in its management.		
Interview Mr. Villar is in charge of all the JV public relations activities. He was very friendly, and generous with his time. The interview turned to a great discussion. Lic. Villar represented the local PC, and the JV points of view. The interview as well as the transcription were in Spanish. We were not interrupted during the interview. Interview duration: 2h30 Interview transcription: 07.10.98 / Transcription time: 4h10.		

Document summary form

Site: Pescargen's head office (Buenos Aires, Argentina)

Date received: 16.10.98

<i>Name or description of document</i> Pescargen S.A. (Company general information)
<i>Event or contact, if any, with which document is associated</i> Interview with Lic. Villar.
<i>Significance or importance of document</i> General information concerning the JV and its products. The information will be useful to complete the data obtained during the interview, and to build the JV description on chapter 3. Additional information for the company presentation section: http://www.pescargen.com.ar/

Appendix 12: Foreign partners' motivations

(scale: 1 very important, 5 not important)	1	2	3	4	5	N°	Answers	No answers	Total
Lower total capital investment	1	1	2	1	2	1	7	0	7
Faster entry to local market and payback	2	4			1	2	7	0	7
Lower cost by using comparative advantage of each partner	2	2	2		1	3	7	0	7
Access to Latin American markets (Mercosur)	2	2		2	1	4	7	0	7
Defensive JV to reduce competition		2	1	2	2	5	7	0	7
Offensive JV to increase cost and/or lower market share of a third company		2	3	1	1	6	7	0	7
Benefit from local partner's technical know-how	1	3		1	2	7	7	0	7
Benefit from local partner's management know-how	1	3	2	1		8	7	0	7
Integrate a local network (key national contacts)		4	1	1		9	6	1	7
Access to raw materials	3		2		2	10	7	0	7
Access to labor			3	1	3	11	7	0	7
Access to capital			2	3	2	12	7	0	7
Access to distribution channels		1	2		4	13	7	0	7
Benefits from brand recognition			3		4	14	7	0	7
Follow the constructor	4					15	4	3	7
Grow by diversifying markets	1					16	1	6	7
Tariff advantages						17	1	6	7

Other motivations mentioned by respondents

Appendix 13: Local partners' motivations

(scale: 1 very important, 5 not important)	1	2	3	4	5	N°	Answers	No answers	Total
Lower total capital investment		4	2	1		1	7	0	7
Faster entry to foreign markets and payback	1	2	1	1	2	2	7	0	7
Lower cost by using comparative advantage of each partner	1	4	2			3	7	0	7
Access to international markets	1	5		1		4	7	0	7
Defensive JV to reduce competition	2		2	1	2	5	7	0	7
Offensive JV to increase cost and/or lower market share of a third company	1	2	2	1	1	6	7	0	7
Benefit from local partner's technical know-how	4	2		1		7	7	0	7
Benefit from local partner's management know-how		5	1	1		8	7	0	7
Integrate an international network (key national contacts)		4	2	1		9	7	0	7
Access to raw materials	1	2	1	2	1	10	7	0	7
Access to labor	1		1	4	1	11	7	0	7
Access to capital	1	1	4	1		12	7	0	7
Access to distribution channels	1	1	1	2	1	13	6	1	7
Benefits from brand recognition		4	1		1	14	6	1	7

Appendix 14: Both partnere' motivations

(scale: 1 very important, 5 not important)	1	2	3	4	5	N°	Answers	No answers	Total
Lower total capital investment	1	5	4	2	2	1	14	0	14
Faster entry to local market and payback	3	6	1	1	3	2	14	0	14
Lower cost by using comparative advantage of each partner	3	6	4	0	1	3	14	0	14
Access to Latin American / International markets	3	7	0	3	1	4	14	0	14
Defensive JV to reduce competition	2	2	3	3	4	5	14	0	14
Offensive JV to increase cost and/or lower market share of a third company	1	4	5	2	2	6	14	0	14
Benefit from local / foreign partner's technical know-how	5	5	0	2	2	7	14	0	14
Benefit from local / foreign partner's management know-how	1	8	3	2	0	8	14	0	14
Integrate a local / International network (key contacts)	0	8	3	2	0	8	13	1	14
Access to raw materials	4	2	3	2	3	10	14	0	14
Access to labor	1	0	4	5	4	11	14	0	14
Access to capital	1	1	6	4	2	12	14	0	14
Access to distribution channels	1	2	3	2	5	13	13	1	14
Benefits from brand recognition	0	4	4	0	5	14	13	1	14
Follow the constructor	4	0	0	0	0	15	4	10	14
Grow by diversifying markets	1	0	0	0	0	16	1	13	14
Tariff advantages	1	0	0	0	0	17	1	13	14

Other motivations mentioned by respondents

Appendix 12: Foreign partners' motivations

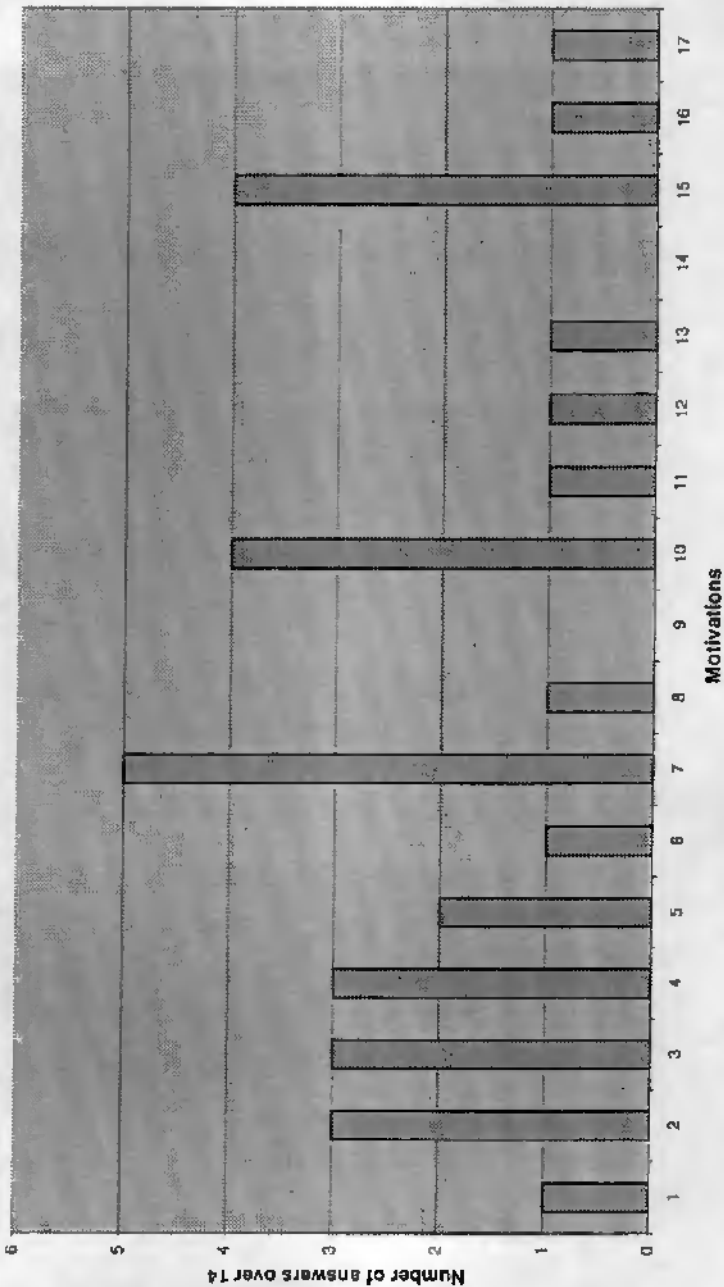
(scale: 1 very important, 5 not important)	1	2	3	4	5	N°	Answers	No answers	Total
Lower total capital investment	1	1	2	1	2	1	7	0	7
Faster entry to local market and payback	2	4			1	2	7	0	7
Lower cost by using comparative advantage of each partner	2	2	2		1	3	7	0	7
Access to Latin American markets (Mercosur)	2	2		2	1	4	7	0	7
Defensive JV to reduce competition		2	1	2	2	5	7	0	7
Offensive JV to increase cost and/or lower market share of a third company		2	3	1	1	6	7	0	7
Benefit from local partner's technical know-how	1	3		1	2	7	7	0	7
Benefit from local partner's management know-how	1	3	2	1		8	7	0	7
Integrate a local network (key national contacts)		4	1	1		9	6	1	7
Access to raw materials	3		2		2	10	7	0	7
Access to labor			3	1	3	11	7	0	7
Access to capital			2	3	2	12	7	0	7
Access to distribution channels		1	2		4	13	7	0	7
Benefits from brand recognition			3		4	14	7	0	7
Follow the constructor	4					15	4	3	7
Grow by diversifying markets	1					16	1	6	7
Tariff advantages	1					17	1	6	7

Other motivations mentioned by respondents

Appendix 13: Local partners' motivations

(scale: 1 very important, 5 not important)	1	2	3	4	5	N°	Answers	No answers	Total
Lower total capital investment		4	2	1		1	7	0	7
Faster entry to foreign markets and payback	1	2	1	1	2	2	7	0	7
Lower cost by using comparative advantage of each partner	1	4	2			3	7	0	7
Access to international markets	1	5		1		4	7	0	7
Defensive JV to reduce competition	2		2	1	2	5	7	0	7
Offensive JV to increase cost and/or lower market share of a third company	1	2	2	1	1	6	7	0	7
Benefit from local partner's technical know-how	4	2		1		7	7	0	7
Benefit from local partner's management know-how		5	1	1		8	7	0	7
Integrate an international network (key national contacts)		4	2	1		9	7	0	7
Access to raw materials	1	2	1	2	1	10	7	0	7
Access to labor	1		1	4	1	11	7	0	7
Access to capital	1	1	4	1		12	7	0	7
Access to distribution channels	1	1	1	2	1	13	6	1	7
Benefits from brand recognition		4	1		1	14	6	1	7

Appendix 15: Motivations judged very important

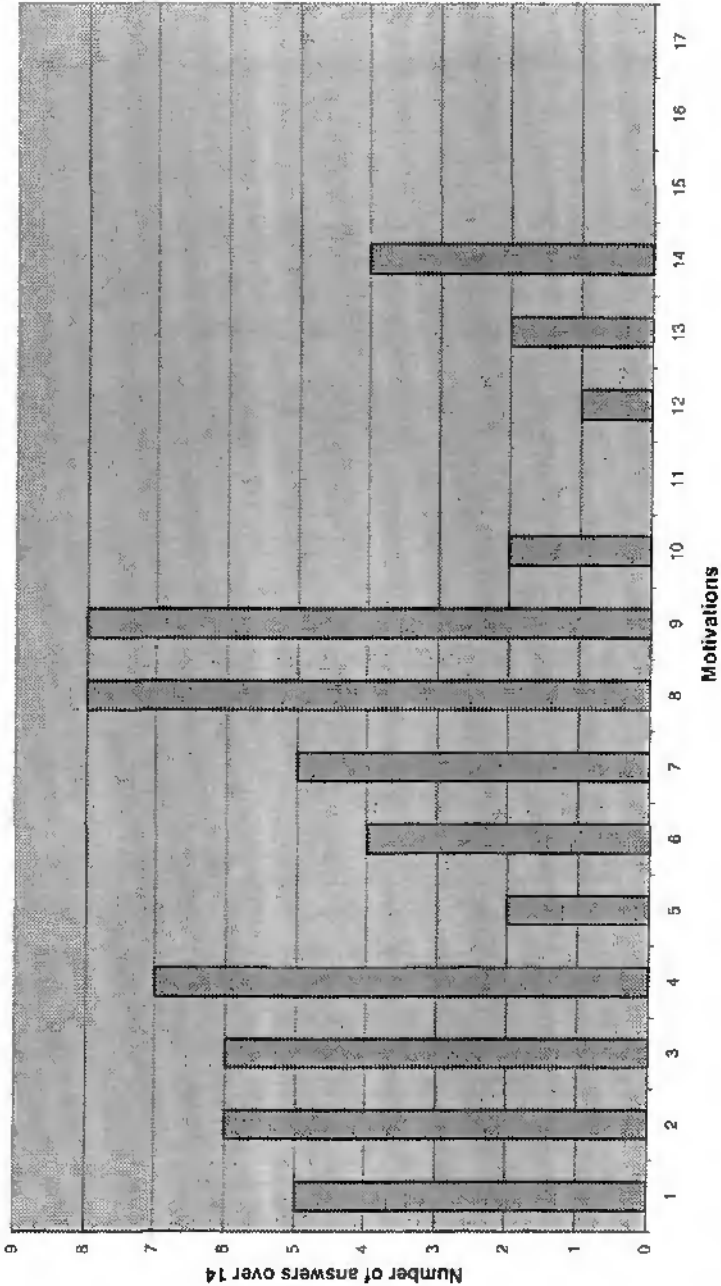


Appendix 14: Both partners' motivations

(scale: 1 very important, 5 not important)	1	2	3	4	5	N°	Answers	No answers	Total
Lower total capital investment	1	5	4	2	2	1	14	0	14
Faster entry to local market and payback	3	6	1	1	3	2	14	0	14
Lower cost by using comparative advantage of each partner	3	6	4	0	1	3	14	0	14
Access to Latin American / international markets	3	7	0	3	1	4	14	0	14
Defensive JV to reduce competition	2	2	3	3	4	5	14	0	14
Offensive JV to increase cost and/or lower market share of a third company	1	4	5	2	2	6	14	0	14
Benefit from local / foreign partner's technical know-how	5	5	0	2	2	7	14	0	14
Benefit from local / foreign partner's management know-how	1	6	3	2	0	8	14	0	14
Integrate a local / international network (key contacts)	0	6	3	2	0	9	13	1	14
Access to raw materials	4	2	3	2	3	10	14	0	14
Access to labor	1	0	4	5	4	11	14	0	14
Access to capital	1	1	6	4	2	12	14	0	14
Access to distribution channels	1	2	3	2	5	13	13	1	14
Benefits from brand recognition	0	4	4	0	5	14	13	1	14
Follow the constructor	4	0	0	0	0	15	4	10	14
Grow by diversifying markets	1	0	0	0	0	16	1	13	14
Tariff advantages	1	0	0	0	0	17	1	13	14

Other motivations mentioned by respondents

Appendix 16: Motivations judged important



Appendix 17: Relation factors evaluated by foreign PCs

(scale: 1 completely agree, 5 completely disagree)	1	2	3	4	5	No. Answers	No answers	Total
Our gains from the alliance are mutual	3	4			1	7	0	7
Our relationship is based on collaboration	3	4			2	7	0	7
Our relationship is based on mere exchange		3	3		1	3	0	7
The value of the alliance is apparent to our customer		6	1		4	7	0	7
This alliance offers a competitive advantage	1	6			5	7	0	7
The driving forces of the companies are complementary	1	5			6	6	1	7
The operations, risks and rewards are balanced		5	2		7	7	0	7
As alliance partners we always explore new opportunities together	1	3	3		8	7	0	7
The objectives of the alliance are clearly defined	3	1	3		9	7	0	7
There is an excellent clarity of purpose	2	3	1	1	10	7	0	7
The role of each partner are clearly understood	3	3		1	11	7	0	7
The alliance has a shared vision	2	5			12	7	0	7
We develop shared goals that are measurable		4	2		13	6	1	7
Top executives from both companies have met and support the goals of the alliance	3	3			14	6	1	7
We have excellent channels of communications at all levels	3	3	1		15	7	0	7
Key issues are raised early and acted promptly	3	2	1	1	16	7	0	7
We have a high degree of trust	3	4			17	7	0	7
There is continuity in the players	3	3		1	18	7	0	7
There is commitment and support at all levels	2	3	1		19	6	1	7

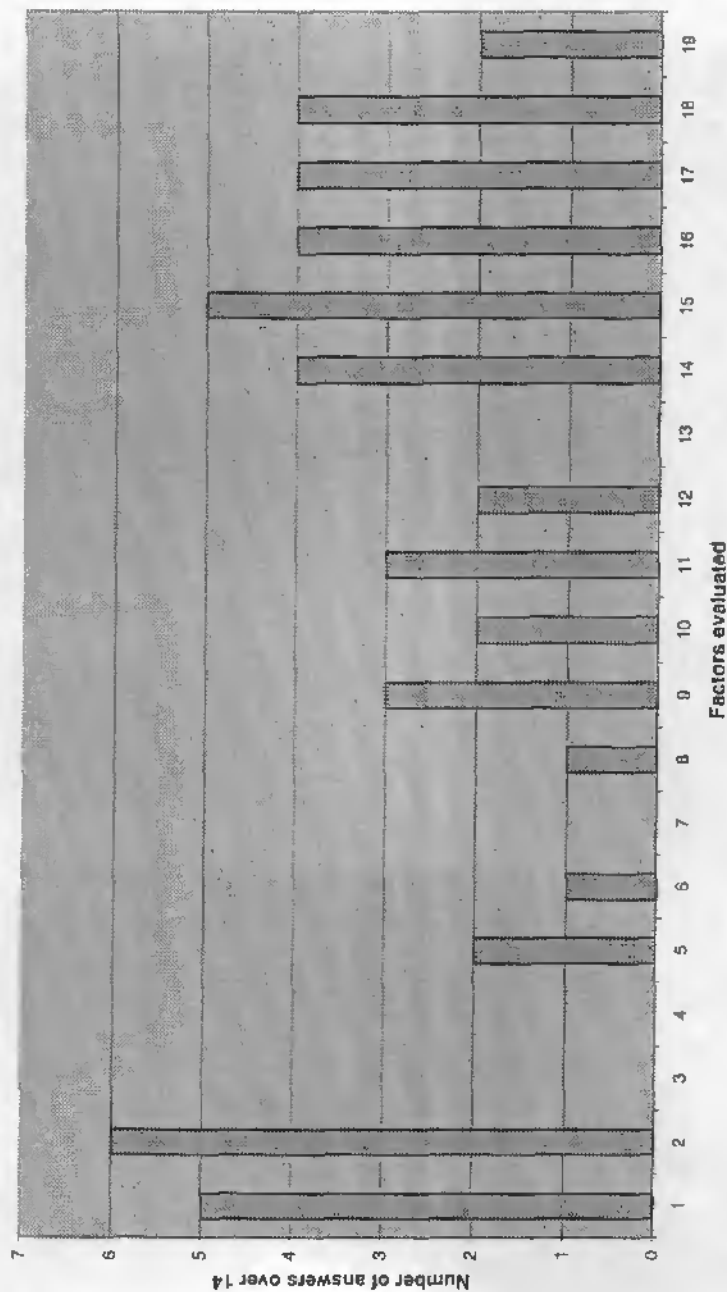
Appendix 18: Relation factors evaluated by local PCs

(scale: 1 completely agree, 5 completely disagree)	1	2	3	4	5	No. Answers	No answers	Total
Our gains from the alliance are mutual	2	5				1	7	7
Our relationship is based on collaboration	3	4				2	7	7
Our relationship is based on mere exchange			4	3		3	7	7
The value of the alliance is apparent to our customer	6	1				4	7	7
This alliance offers a competitive advantage	1	5	1			5	7	7
The driving forces of the companies are complementary	6			1		6	7	7
The operations, risks and rewards are balanced	3	3	1			7	7	7
As alliance partners we always explore new opportunities together	5	2				8	7	7
The objectives of the alliance are clearly defined	7					9	7	7
There is an excellent clarity of purpose	7					10	7	7
The roles of each partner are clearly understood	7					11	7	7
The alliance has a shared vision	5	2				12	7	7
We develop shared goals that are measurable	7					13	7	7
Top executives from both companies have met and support the goals of the alliance	1	6				14	7	7
We have excellent channels of communications at all levels	2	4	1			15	7	7
Key issues are raised early and acted promptly	1	6				16	7	7
We have a high degree of trust	1	6				17	7	7
There is continuity in the players	1	5				18	6	7
There is commitment and support at all levels		5	1			19	6	7

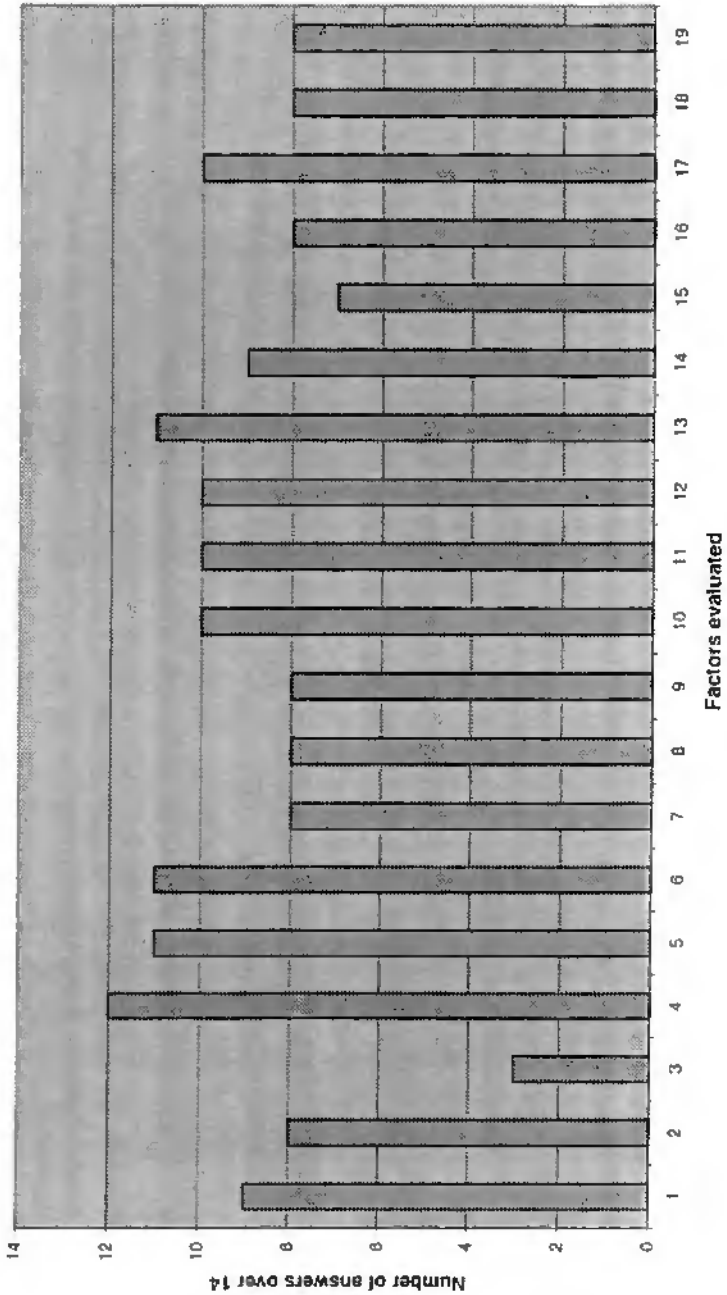
Appendix 19: Relation factors evaluated by both foreign and local PCs

(scale: 1 completely agree, 5 completely disagree)	1	2	3	4	5	No. Answers	No answers	Total
Our gains from the alliance are mutual	5	9	0	0	0	1	14	14
Our relationship is based on collaboration	6	8	0	0	0	2	14	14
Our relationship is based on mere exchange	0	3	7	3	1	3	14	14
The value of the alliance is apparent to our customer	0	12	2	0	0	4	14	14
This alliance offers a competitive advantage	2	11	1	0	0	5	14	14
The driving forces of the companies are complementary	1	11	0	1	0	8	13	14
The operations, risks and rewards are balanced	0	8	5	1	0	7	14	14
As alliance partners we always explore new opportunities together	1	8	5	0	0	8	14	14
The objectives of the alliance are clearly defined	3	8	3	0	0	9	14	14
There is an excellent clarity of purpose	2	10	1	1	0	10	14	14
The roles of each partner are clearly understood	3	10	0	0	1	11	14	14
The alliance has a shared vision	2	10	2	0	0	12	14	14
We develop shared goals that are measurable	0	11	2	0	0	13	13	14
Top executives from both companies have met and support the goals of the alliance	4	9	0	0	0	14	13	14
We have excellent channels of communications at all levels	5	7	2	0	0	15	14	14
Key issues are raised early and acted promptly	4	8	1	1	0	16	14	14
We have a high degree of trust	4	10	0	0	0	17	14	14
There is continuity in the players	4	8	0	1	0	18	13	14
There is commitment and support at all levels	2	8	2	0	0	19	12	14

Appendix 20: Relation factors on which both partners completely agreed



Appendix 21: Relation factors on which both partners agreed



Appendix 22: Key factors evaluated by foreign PCE

(scale: 1 completely agree, 5 completely disagree)	1	2	3	4	5	No	Answers	No answers	Total
Partner selection	6	1				1	7	0	7
Past alliance experience	1	5	1			2	7	0	7
Top executives commitment	6	1				3	7	0	7
Clarity of the payback time	1	3	3			4	7	0	7
Clarity of each partner's role	4	3				5	7	0	7
Objectives clarity	3	2	1			6	6	1	7
Learning from the partner		6	1			7	7	0	7
Establishing solid links between top executives	4	2	1			8	7	0	7
Build the relationship	2	4	1			9	7	0	7
Financial commitment	3	2	2			10	7	0	7
Accurate planning	1	5	1			11	7	0	7
Establishing realistic expectations	4	2	1			12	7	0	7
Cultural differences alignment	1	3	3			13	7	0	7
Share risks and resources	2	3	2			14	7	0	7
Communication between partners	4	3				15	7	0	7
Frequent result feedback	1	6				16	7	0	7
JV's General Manager selection	4	1	1		1	17	7	0	7
Fix important things from the beginning	1					18	1	6	7

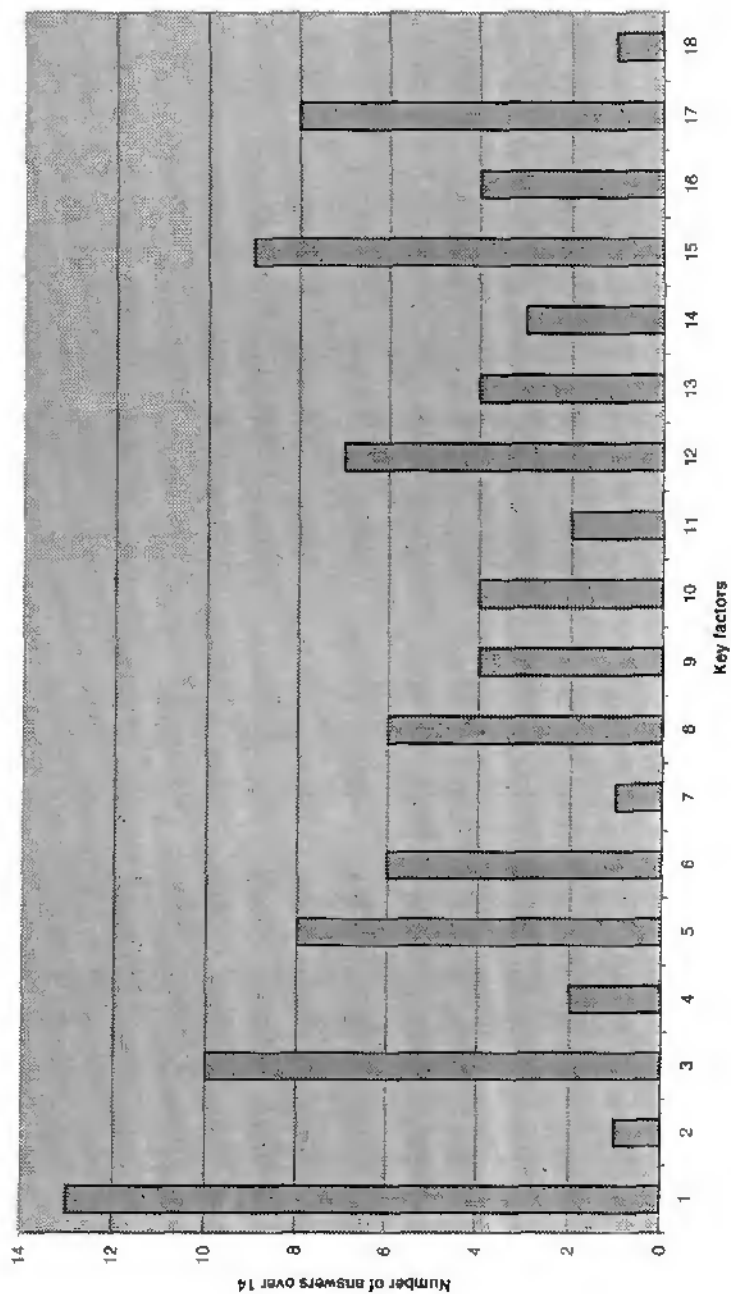
Appendix 23: Key factors evaluated by local PCs

(scale: 1 completely agree, 5 completely disagree)	1	2	3	4	5	No	Answers	No answers	Total
Partner selection	7					1	7	0	7
Past alliance experience		7				2	7	0	7
Top executives commitment	4	3				3	7	0	7
Clarity of the payback time	1	5	1			4	7	0	7
Clarity of each partner's role	4	3				5	7	0	7
Objectives clarity	3	3	1			6	7	0	7
Learning from the partner	1	4	2			7	7	0	7
Establishing solid links between top executives	2	5				8	7	0	7
Build the relationship	2	5				9	7	0	7
Financial commitment	1	6				10	7	0	7
Accurate planning	1	6				11	7	0	7
Establishing realistic expectations	3	4				12	7	0	7
Cultural differences alignment	3	3	1			13	7	0	7
Share risks and resources	1	6				14	7	0	7
Communication between partners	5	2				15	7	0	7
Frequent result feedback	3	4				16	7	0	7
JV's General Manager selection	4	2	1			17	7	0	7
Fix Important things from the beginning						18	0	7	7

Appendix 24: Key factors evaluated by both foreign and local PCa

(scale: 1 completely agree, 5 completely disagree)	1	2	3	4	5	No	Answers	No answers	Total
Partner selection	13	1	0	0	0	1	14	0	14
Past alliance experience	1	12	1	0	0	2	14	0	14
Top executives commitment	10	4	0	0	0	3	14	0	14
Clarity of the payback time	2	8	3	1	0	4	14	0	14
Clarity of each partner's role	8	6	0	0	0	5	14	0	14
Objectives clarity	6	5	2	0	0	6	13	1	14
Learning from the partner	1	10	3	0	0	7	14	0	14
Establishing solid links between top executives	6	7	1	0	0	8	14	0	14
Build the relationship	4	9	1	0	0	9	14	0	14
Financial commitment	4	8	2	0	0	10	14	0	14
Accurate planning	2	11	1	0	0	11	14	0	14
Establishing realistic expectations	7	6	1	0	0	12	14	0	14
Cultural differences alignment	4	6	4	0	0	13	14	0	14
Share risks and resources	3	9	2	0	0	14	14	0	14
Communication between partners	9	5	0	0	0	15	14	0	14
Frequent result feedback	4	10	0	0	0	16	14	0	14
JV's General Manager selection	8	3	2	0	1	17	14	0	14
Fix important things from the beginning	1	0	0	0	0	18	1	13	14

Appendix 25: Key factors considered as very important



Appendix 26: Key factors considered as important

