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Problems of Joint International Business Ventures

The term "joint international business ventures" implies the bringing together by persons, corporations and/or governments, from two or more countries, of the various factors required for successful business operations. The venture is joint inasmuch as different interests join forces to achieve a common objective; it is international in that some of the interests are located in one country and some in another or other countries; finally, the venture is a business one because the ultimate end is to make a profit in the production and sale of products or in the rendering of services.

Like any other human institution, joint international business ventures are not free of problems. Defining a problem is the best route to its solution. Setting down problems of joint international business ventures and endeavoring to analyze them is of basic importance.

The insoluble problems are generally due to the poor ethical standards of one or more of the partners. In these cases, there are no solutions that will permit the partners to compose their differences. Avoidable problems arise in the normal course of the formation, and during the life, of any joint business venture whether it is of an international character or not.

From the author's personal experience of over twenty years, there are listed hereunder some of the soluble problems of joint international business ventures:

1. The future partners should assure themselves that their objectives are the same. While it may be assumed that all of the partners are basically interested in profits, there are cases in which the interest in obtaining direct profit from the joint venture is not the same for both partners. The foreign corporation may be more interested in a profit from the sale of equipment and raw or semi-processed materials, in the receipt of fees for royalties on patents and trademarks and from technical assistance or in an assured supply of raw materials and semi-processed products for

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later use at home in the manufacture of more finished products than in the direct profit coming as dividends from the joint international business venture. In this first problem area, like in all of the other areas, it is essential for the success of the joint venture that the partners treat each other openly, with full disclosure and absolute frankness.

2. A second problem arises in the difference in the speed of action and in the overall business knowledge between the local partners and the foreign company. Large companies usually act slowly, whereas the local partners are inclined to act rapidly. Large companies tend to be more careful, and they analyze matters more thoroughly. The look into the future—not only the immediate future, but also the distant future. Their sources of information are better and more ample. The more sophisticated local partners understand this difference in the tempo of action, whereas the less sophisticated local partners are unable to understand the delays of the foreign corporations and attribute them to lack of interest or to some undisclosed reason.

3. A third area for problems is in the inadequate communication between the partners at different levels. This is not only a matter of semantics, but perhaps primarily of the lack of a common basic language. In addition to the lack of a common language and in some instances of semantics, problems arise when the partners do not meet regularly in connection with the business of their joint venture and perhaps never on a social basis. This lack of communication, their never getting to know each other, is bound to lead to serious differences in the future, when one or both of the partners or groups of partners have taken action on basic matters, no matter how adequate, without the knowledge and approval of the other partner or partners.

4. A fourth area of problems occurs from the lack of knowledge, or the inadequate knowledge, by the outside investors and by their top executive personnel operating in the host country, as to the history, aspirations, language, customs, economic development and idiosyncrasies of the people of the host country. More than one joint venture has been derailed and destroyed by mistakes in this area.

5. A fifth problem is in the distribution of net profits. Usually the local partners prefer to distribute as much, and if possible all, of the net profits as dividends. Again, the more sophisticated the local partners are the less danger there is of conflict on this point. In the past, the foreign corporation usually preferred not to pay dividends during the first years of operation, keeping the profits in the joint venture to strengthen its economic position. In the last few years, the inadequacy of international liquidity has forced foreign corporations, partners in joint ventures in developing countries, to increase payments from the joint venture companies in all possible means available, including the amounts corresponding to dividends.

6. Another source of misunderstanding that may lead to friction is in the

amount of directors' fees. Large foreign corporations usually pay symbolic fees to their outside directors, and in many cases nothing to the directors who are full-time employees of the corporation. The foreign corporations usually try to establish the same principle in companies in which they are joint venture partners with local capital. The local partners who participate as directors expect to be paid fees for their services, and in some cases the fees they wish to obtain are rather large.

7. The establishing of the amount of the technical service fee has become an important issue between the partners. While the local partners are induced, in a substantial degree, to participate in joint ventures with foreign corporations, because of the know-how which the joint-venture company will obtain from abroad, it is difficult, and in some cases almost impossible, for the local partners to understand the full value of the technical assistance which the joint venture company needs and will receive from the foreign partner. In some instances the amount of the technical service fees charged by the foreign partner unquestionably are excessive. There must be some objective manner for determination of a fair technical service fee. One could be for the fee to be set at the same percentage of the gross income of the joint venture company that the foreign partner spends as a percentage of its own gross income in its yearly disbursements for research and development. Balance-of-payments problems are forcing developing nations to review the outgo of monies for technical assistance. In Mexico, in addition to concrete limitations in cases in which companies request tax exemptions, the present legal principle is that proof must be presented to the Treasury Department that the foreign entity which renders the technical assistance has its own technical elements for that purpose; that the service is furnished directly and not through third parties; and that the right to the assistance is not limited to the possibility of obtaining it, but rather that the services are actually rendered.

8. The amount of the royalty for use of patents and trademarks is also difficult to determine, and is likewise a source of friction. Both in regard to the royalty fees and to payments for technical service assistance, it seems fair that the foreign partner bear in mind that the local partners, if properly chosen, represent an important intangible asset for the success of the joint-venture company. It is precisely in the areas in which the foreign partner is weak that the local partners are strong. In the knowledge of the host country, its economy, rate of economic development, weaknesses and strengths, idiosyncrasies, relations with labor, with government, with banks, with other local businessmen and trade organizations, the local partners can render important services in which the disbursements would be substantial, if the joint venture had to pay for them.

9. A point of growing dissatisfaction among the local partners is in the attitude of the top managers of the joint-venture companies who come from the foreign-partner corporation. Many of these managers, though

there are some exceptions, seem to disregard the local community, and it is obvious that they have an excessive, if not exclusive, interest in obtaining the greatest profits to enhance their personal prestige with the foreign partner's top directors to improve their position for advancement in the multinational foreign corporation. This excessive or almost exclusive interest in profits may be greatly appreciated by the local and foreign partners for some time, but in the long run both the joint-venture company and the foreign partner will have marked themselves unfavorably in the eyes of many important business, government, banking and other circles of the host country.

10. An area of differences between the partners may arise in the manner of financing the needs of the joint-venture company for additional working capital, acquisition of fixed assets and in other expansion activities.

11. Decision as to whether the local partners and the foreign partner may participate in the same host country in similar or competing businesses should be established to avoid surprises that might lead to friction between the joint venture partners.

12. The possible export of products manufactured by the joint venture company to markets outside the host country should also be explored, and an agreement reached.

The foregoing are some of the more obvious areas in which problems may arise between the partners. There are undoubtedly many other problem areas.

The best means to eliminate the foregoing problems is for the persons contemplating the partnership to discuss, without reservations, these various matters prior to establishment of the joint venture. It is worth while to argue at length before an association is formed, on all points that later might become bones of contention that could well lead to irreparable difficulties, and ultimately to the failure of the venture. Successful joint international business ventures are usually those wherein the foregoing points have been discussed, and the clear understanding of the parties has been embodied in a memorandum of agreement signed by the partners in the joint venture.

Another excellent practice is for the board of directors to meet each month, at least during the initial stages of the joint venture. Later, when the parties know and respect each other, these board meetings may be held bi-monthly or quarterly. However, it is always good to hold board meetings as frequently as possible as they bring the partners closer together, and help avoid the building up of resentments and doubts which could have been solved initially without great effort.

In many instances the joint-venture companies establish an advisory committee made up of one or more of the local partners with one or more of the top officers of the parent foreign corporation. This advisory committee may meet either in the host country or at the domicile of the parent corporation, and while the primary objective may be to review results and to project future activities, the meetings serve also to keep the partners closely tied.

Depending on the size of the joint venture, executive committees and planning committees have proven to be of great value.

These international business ventures have grown in importance over the last few years, and today, in some countries, they are the rule rather than the exception for the participation of new direct private foreign investment.

Many United States corporations, when doing business in other countries, have done so as joint business ventures. The trend today is for more of such corporations to accept, and even to suggest, joint international business ventures.

Understanding and peace among people of different nations could be enhanced greatly through joint international business ventures. Perhaps the best example is the United States of America, where over 200 million people from different continents, nations, races and religions, politically and factually united in fifty States, two like Hawaii and Alaska, physically separated by great distances from the mainland, and a free associated State like Puerto Rico, again away from the mainland, have created the world's largest and most important single common market with an enormous number of joint business ventures. Over twenty million people are stockholders in the major American corporations, in what is the most outstanding and successful experiment of national joint business ventures. This is democratic capitalism.

A more interesting recent example, and in a sense of greater significance, is the European Common Market where six nations whose combined 182 million people throughout history have frequenly been at war, have joined their economies, not only industrially but commercially, and where one can foresee mergers of companies of different nationalities which will create larger and stronger corporate entities, better suited for services to the large population of the Common Market, and to compete on a more equal basis with the huge multinational corporations of the United States.

In Mexico, by law, new companies in many fields of economic activity may not have more than a fixed percentage of foreign capital. The administrative policies of the present Mexican Government, as were those of the three prior federal administrations, are perhaps more rigid than the legal provisions in maintaining that while foreign capital is needed and is welcome, it should come into Mexico in a minority position and in joint venture with Mexican capital. This is presently the prevailing, though not the unanimous position of the Mexican business community.

Developing countries unquestionably require the investment, the technology and the administrative know-how of companies from the highly industrialized and more fully developed countries. But at the same time these highly industrialized and developed countries require the raw materials and processed goods of the developing countries, and particularly the potential of the tremendous markets of these less fortunate nations.

As an interesting fact, the United States imports, in varying percentages of the amounts required, about 90 of the 100 most essential minerals that it uses in its industrial production. Perhaps it would be well to know how many of their necessary and essential materials are imported by Japan, Germany, France, Great Britain, Italy, Holland, Belgium, Sweden and Switzerland for their manufacturing plants.

In our troubled world, in the throes of ideological struggle, population explosion, limited wars with unlimited deaths, costs and consequences, tribal, racial and nationality struggles, and the pervasive conflict of generations; any insitution which forms a cohesive factor should be studied, and every effort made to secure its existence and to foster its strength and growth.

For the free nations of the world, the joint international business venture is one of the better, if not the best, means of bringing together the peoples of many nations in common interests, communication, procedures, relationships and objectives. It is a means not readily available, if at all available, to communist nations.

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